

# OPERATING STATEMENT

OF CRNOGORSKI ELEKTROPRENOSNI SISTEM  
FOR THE YEAR 2014

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THE YEAR 2014

*Podgorica, June 2015.*



# An attachment to the report



**Dragan Laketić**

Chairman of Board of Directors

## Foreword by the Chairman of Board of Directors

Dear shareholders, institutional and business partners of Crnogorski elektroprenosni sistem,

I believe the financial statements and operating statement presented in front of you convincingly describe one more successful business year, which is the sixth year in a number of years with positive business results and even a record profit. The record profit, record implementation percentage of the plan of investments in internal network along with the record amount of total investments implemented in one year are the facts that should make us feel satisfied and proud. Being aware of all factors that influenced the results achieved, we endeavoured, in parallel with performing required planned activities, to balance the consequences of inapplicability of certain decisions that essentially affect the CGES business operation, and to contribute to the improvement of relations between key actors on the energy

scene of Montenegro. These developments reaffirmed that the predictability of regulatory framework and harmonized relation between energy undertakings are a precondition for the successful achievement of the goals both in the public interest and to the satisfaction of and for the benefit of the CGES' shareholders.

In order to achieve our mission and provide a reliable transmission system with enough capacity and undisrupted access for all users, we need to proceed with the activities of connecting and reinforcing transmission network both internally and towards the neighbouring countries. This is the only way to respond to the challenges imposed by the future, including first of all integration of renewable sources and creation of all conditions necessary for undisrupted functioning of electricity market. Besides, we believe our investment projects encourage investment activities both within Montenegro and in the region, particularly those concerning the construction of new energy sources. In order to meet these objectives, we need to intensively proceed with the implementation of the project of submarine connection with Italy and other investment projects, for which an amount of 164 million euro is planned for the next five year period. We want our activities, particularly investment ones, for which we have obtained a clear institutional support, to be accepted at a wider social level. To this end we are ready and willing to continue public dialogue with the aim of finding a compromise between the necessity of constructing transmission network facilities and protecting interests of other party, always bearing in mind that our transmission network is part of a technically unified European transmission network which must comply with the standards and operation safety criteria stipulated at the European level. Our aim is to minimize negative impacts on the environment and achieve much more compatibility with the neighbouring countries by constructing transmission network facilities.

Our top priorities include maintaining high level of cooperation with the European Network of Transmission System Operators for Electricity (ENTSO-e) and Energy Community of South East Europe, as well as maintaining the leading position in the openness towards regional initiatives such as Coordinated Auction Office (CAO) and Security Coordination Centre (SCC), thereby contributing to integration processes our country and society strive for.

We should not necessarily emphasize that the commitment and expertise of our employees were decisive factors in achieving these business results. Hereby I would also like to thank members of Board of Directors, management team and all employees for cooperation and contribution they have invested in the achievement of 2014 business objectives.



**Ivan Bulatović**  
Executive Director

## Foreword by the Executive Director

Having in mind the 2014 Operating Statement I need and feel it my obligation to emphasize several in my opinion significant highlights that marked the last year. First of all, I am very satisfied and proud to point out that the year 2014 is one more in a number of successful preceding years which resulted in the record performance in terms of gained profit and implemented investment plan. Besides these two most important parameters, according to many other criteria the last business year may be ranked among the best from the very beginning of CGES business operation.

Among the significant results achieved in 2014, I would like to single out those deserving special attention. In February 2014, the first high-voltage cable (110 kV) was officially put into operation. This cable, in the length of 3.6 km, connects two substations 110/10 kV Podgorica 3 and Podgorica 5 which supply power to a narrower urban core, thereby ensuring safe and reliable power supply. In this way the reliability of power supply of these urban substations satisfied the criterion n-1. Following activities relating first of all to ensuring financial assets, preparation of tender documents and announcement of tender for the selection of a contractor, last year in March a contract was signed with the contractor in charge of constructing a double-circuit overhead line 400 kV from Lastva to Cevo and a single-circuit overhead line from Lastva to Pljevlja, the section to Cevo, and in November it was signed for the section from Cevo to Pljevlja, thereby creating conditions for the construction of the infrastructure necessary for connecting power systems of Montenegro and Italy. Among business activities, I deem it important to single out the first transmission capacity coordinated auction, whereby CGES by assigning its borders to the coordinated mechanism fulfilled its obligations and the obligations of the state of Montenegro determined to be the high-priority obligations by the European Commission.

In this brief overview followed by the Operating Statement for the last year, I would like to point out some activities we were obliged to perform by devoting certain energy; these activities concern outstanding receivables for electricity transmission from the year 2013. Despite the strenuous efforts to settle a dispute by mutual agreement, we did not manage to solve it successfully during the year when the operating statement was prepared, thus the dispute was followed by a court epilogue. In the meanwhile, ERA made a decision imposing obligation upon all producers to pay electricity transmission services, but EPCG declined to pay these obligations, which made the operation of transmission system much more difficult. This issue was also brought before the court. The remaining activities in performing work tasks were carried out successfully. Besides a high percentage of the investment plan implementation and high reliability of power facilities, a record was achieved with regard to the quality of regulation last year. In the second week of October, regulation of exchange power with neighboring systems reached 93 % of a record reduction in unwanted deviations.

Determination of CGES to do business as a socially responsible company continued in 2014 through carrying out many activities reflected in proving support to Montenegrin sports associations, talented individuals, expert teams, cultural events and socially and health affected individuals.

Facing the challenges of the implementation of a very intensive investment cycle, on the one hand, and the optimization of human resources, on the other, CGES proceeded with the efficiency growth trend which is reflected first of all in the increased value of assets per employee. Financial Statements for the year 2014 show net profit of 12.1 million euro and revenues amount to 38.8 million euro, mainly referring to the transmission network use in the amount of 21.6 million euro and capacity allocation amounting to 7 million euro. Operating expenses amount to 17.8 million euro. Resulting EBITDA, (earnings before interest, taxes, depreciation and amortization) amount to 21 million euro reaching the margin at 54 %.

Finally, we must undoubtedly note that the last business year of CGES is an example of successful operation of TSO in terms of gained financial profit and other important operating parameters.



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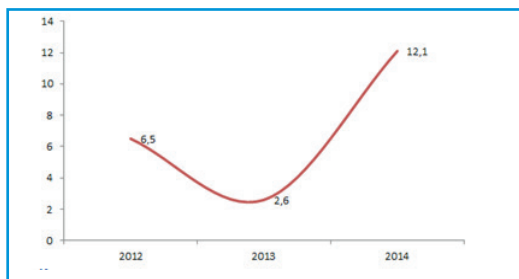




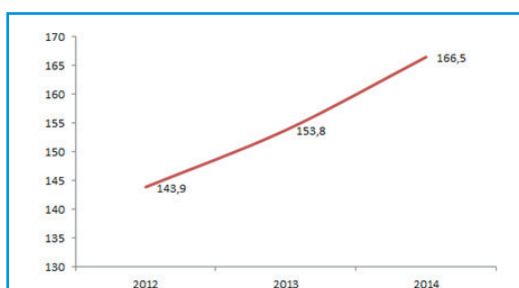


# 2014 Key Indicators

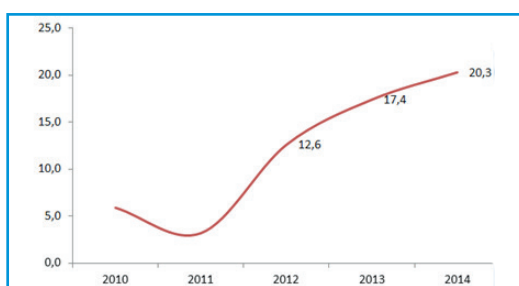
## Corporate data



Sixth year in a row, from the spin-off into a separate legal entity, CGES achieved a positive business result – by showing a net profit in the amount of 12.1 million euros.

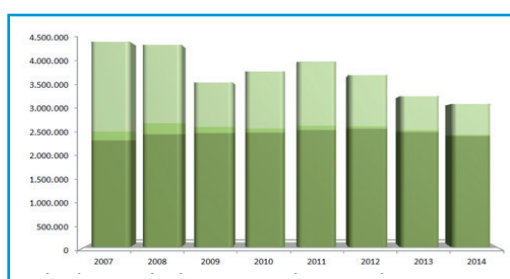


Increasing standards and demand of end electricity consumers in terms of quality, can be achieved only by a permanent system development. The value of CGES assets reached 166.5 million euros in 2014.

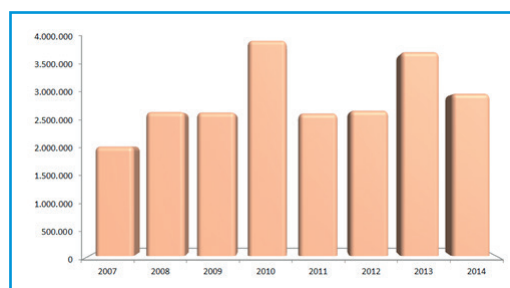


From once standing 3 to 6 million euros, by permanent increase, we achieved an annual amount of implemented investments of overall 20 million euros.

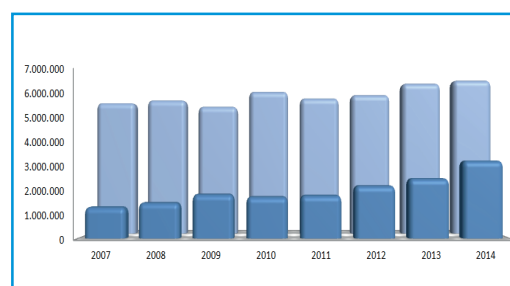
## Transmitted electricity



While requests for quality of supply increase, the total electricity consumption in the country decreases – on a record low 3.1TWh



The increase of domestic consumption still is not followed by the development of transmission infrastructure, so the production of about 3TWh is on level of the multi-year average.



Unfavorable trends of domestic needs for electricity transmission are completely compensated by the work of the Montenegrin electricity transmission system in electric power interconnection. Permanent increase of electricity quantities transmitted through the Montenegrin system for needs of others, allowed a record transmission of electricity in 2014 in the amount of 6.7TWh.



# Company Profile

## Background

Crnogorski elektroprenosni sistem a.d. (CGES) is registered as a stock company with the Central Registry of Business Entities on 27 March 2010, under number 40008972. The core activity of the Company is electricity transmission, under code 3512, for which it has obtained a license from the Energy Regulatory Agency. Share capital of the Company amounts 155.108.283, 12 euro, divided into 146.176.876 shares with the nominal value of 1,0611 euro.

The license for electricity transmission was issued pursuant to Article 37 and Article 55 of the Energy Law, Official Gazette of Montenegro no. 28/10, Article 18 of the By-Laws of Energy Regulatory Agency, Official Gazette of Montenegro no. 7/11 and Decision of the Board of Energy Regulatory Agency on the amendments to the license for electricity transmission no. 11/1541-1 dated 11 July 2011, entered into a register of licenses under number L-E-007.

As a national electricity transmission operator, CGES is responsible for the development, operation, management and maintenance of the transmission network in Montenegro, all with the aim of ensuring stable operation of electric power system and reliable power transmission from generation facilities to big consumers and distribution network and ensuring electric power exchanges with neighboring electric power systems.

Additionally, CGES has been performing an activity of setting electrical installations and equipment, designing civil and other structures, coarse civil works, other civil and specialized works as well as telecommunication for which it has obtained a license from the Agency for Electronic Communications and Postal Services.

## Foundation and Development

Experience of the Company in performing the core activity is based on the multi-decennial work in various organizational forms since the construction of the first transformer station of the transmission network in Montenegro – TS 110/35kV “Nikšić”, which was put into operation through the overhead line 110kV Nikšić (Montenegro) – Bileća (Bosnia and Herzegovina) on 1 July 1957.

Preparations for this started as early as 8 January 1954 when the company “Dalekovod” - Titograd was founded, whose main activity was the construction of overhead lines and transformer stations. Within its activity, the company performed transmission, transformation of electric energy and maintenance of the facilities of transmission network, covering the southern and central area of the then Socialist Republic of Montenegro. “Elektroprenos - Bijelo Polje” was founded in Bijelo Polje on 1 May 1955 for the northern area of the Republic, which

was affiliated to the company "Dalekovod" - Titograd on 15 July 1957. Since its foundation, within this company there existed two units, the first for transmission, transformation of electric energy and maintenance of the facilities of transmission network, and the second for the construction of the transmission network facilities. Since 1961, the company has been operating under a name "Elektrocrnagora" – Titograd. During the integration process at the end of the seventies of the last century, the company became an integral part of Elektroprivreda Crne Gore, which having gone through various organizational forms became a stock company in 1998.

The Shareholders Assembly of Elektroprivreda Crne Gore ad Nikšić made a decision which was a direct consequence of the adoption of relevant recommendations and regulations of European Union on deregulation of power sector. Restructuring through separation with foundation of a new stock company was approved by a decision no. 10-00-3204 date 23 March 2009, and a stock company Transmission Podgorica was founded, which was renamed in Crnogorski elektroprenosni sistem a.d. by a decision of the Shareholders Assembly at the session held on 25 June 2010, so as of 2 July 2010 when this change was registered with the Central Registry of the Commercial Court, the Company has been operating under the name of Crnogorski elektroprenosni sistem AD.

## Facilities of Electric Power Transmission System

The electric transmission system in Montenegro, pursuant to the Energy Law, consists of plants and transmission lines at 110kV, 220kV, 400kV voltage level, and 110/35kV transformers. The transmission line network of electricity transmission system consists of:

- ◆ 30 overhead lines 110 kV total length 551,3 km; the underground cable line with a total length of 3,6 km and 5 overhead lines total length of 121,2 km operating at 35 kV;
- ◆ 8 overhead lines 220 kV total length 337,4 km;
- ◆ 5 overhead lines 400 kV total length 283,3 km.

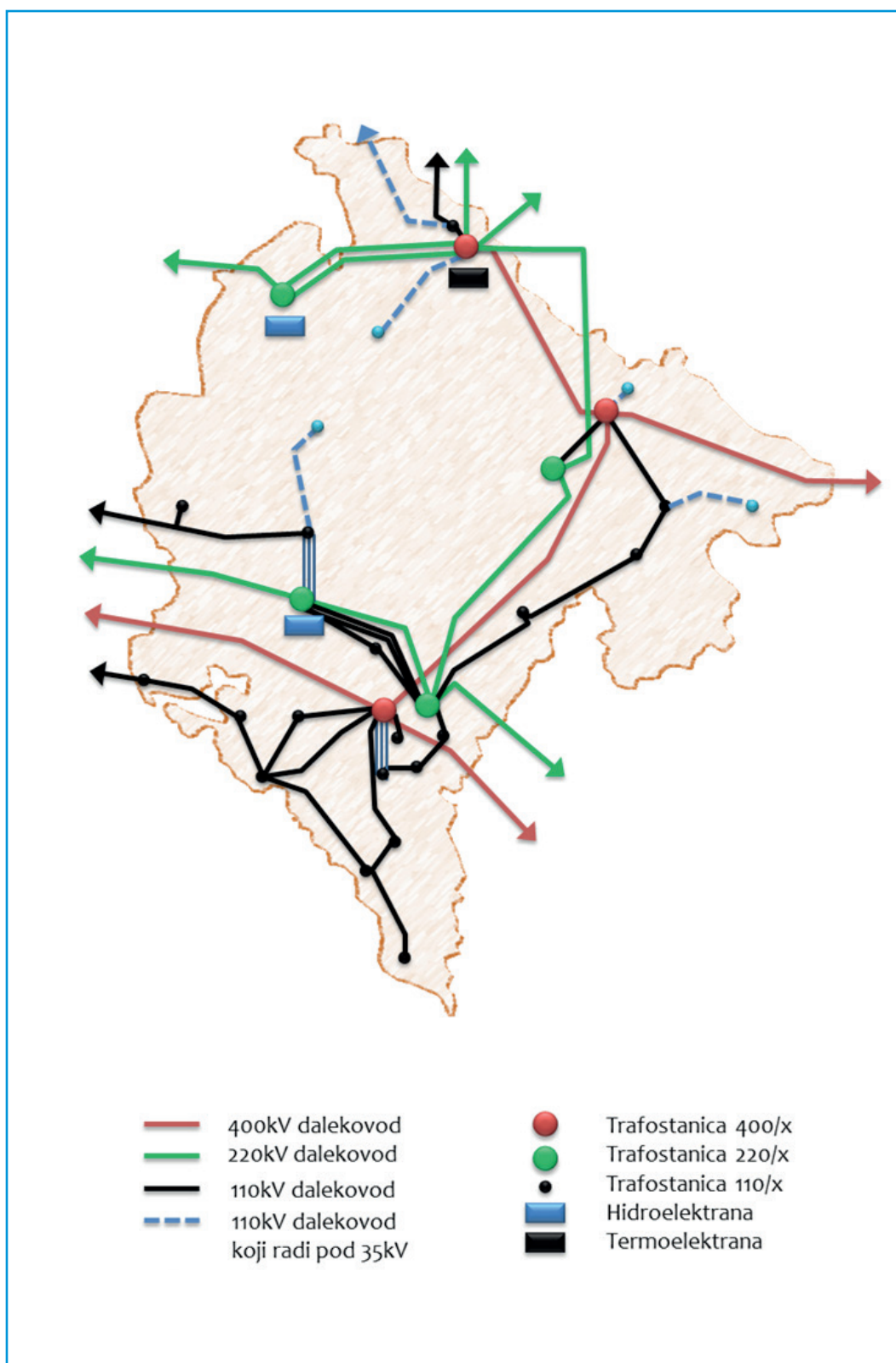
This transmission network ensures good connection of Montenegrin network with neighboring systems at all the three voltage levels; therefore, the system of Montenegro is connected with neighboring electric power systems as follows:

- ◆ With electric power system of Serbia through two 220 kV OHL ("Pljevlja 2 – Bajina Bašta" and "Pljevlja 2 – Požega"), and with 110 kV OHL "Pljevlja 1 – Potpeć";
- ◆ With electric power system of Kosovo, through one 400 kV OHL "Ribarevine – Peć";
- ◆ With electric power system of Bosnia and Herzegovina through one 400 kV OHL ("Podgorica 2 – Trebinje"), two 220 kV OHL (HPP "Perućica - Trebinje" and HPP "Piva – Sarajevo"), and with two 110 kV OHL (H. Novi – Trebinje and Vilusi/Nikšić - Bileća), one 110 kV OHL Pljevlja-Čajniče, operating at 35 kV; and
- ◆ With electric power system of Albania through 400 kV OHL Podgorica 2 - Tirana and 220 kV OHL Podgorica 1 –Koplik.



**Table 1:**  
Electric power lines in the ownership of Crnogorski elektroprivredni sistem AD

Electric power lines:			In Montenegro [km]	Total length [km]
400kV overhead lines	1	Podgorica2 – Trebinje	61,4	89,4
	2	Podgorica2-Ribarevine	84,7	84,7
	3	Ribarevine-Peć	53,1	79,2
	4	Ribarevine - Pljevlja2	54,8	54,8
	5	Podgorica - Tirana	29,3	126
	TOTAL		283,3	513
220kV overhead lines	1	Perućica-Trebinje	42,5	63,2
	2	Podgorica 1-Perućica	34,1	34,1
	3	Podgorica 1-Albanija	21	65,6
	4	Podgorica 1 - Mojkovac	72,1	72,1
	4	Mojkovac -Pljevlja 2*	44,9	81,6
	6	Piva-Pljevlja 264	49,8	49,8
	7	Piva-Pljevlja 265	49,6	49,6
	8	Piva-Lukavica(Buk Bijela)	23,4	25
	TOTAL		337,4	441
110kV overhead lines	1	Podgorica 2-Virpazar	30	30
	2	Virpazar - Bar	16,4	16,4
	3	Podgorica 2-Budva	36	36
	4	Podgorica 1-Podgorica 3	3,9	3,9
	5	Podgorica 2- Podgorica 4	3,5	3,5
	6	Podgorica1-Podgorica2,I	5,8	5,8
	7	Podgorica1-Podgorica2,II	5,9	5,9
	8	Podgorica 2 – Podgorica5	11,7	11,7
	9	Podgorica 2 – Kap,II	8	8
	10	Podgorica2-KAP, III	8,1	8,1
	11	Bar - Budva	33,4	33,4
	12	Bar - Ulcinj	23,7	23,7
	13	Budva - Cetinje	11,5	11,5
	14	Budva-Tivat	17,4	17,4
	15	Podgorica2-Cetinje	31,7	31,7
	16	Tivat-Herceg Novi	20,7	20,7
	17	Herceg Novi- Trebinje	15,6	30,8
	18	Perućica - Danilovgrad	17,1	17,1
	19	Perućica-Nikšić 3	13,5	13,5
	20	Podgorica - Danilovgrad	17,6	17,6
	21	Podgorica – EVP Trebešica	36,1	36,1
	22	EVP Trebešica -Andrijevića	30,8	30,8
	23	Andrijevića- Berane	17,1	17,1
	24	Berane - Ribarevine	21,1	21,1
	25	Ribarevine - Mojkovac	14	14
	26	Nikšić - Bileća	55,6	59,5
	27	Pljevlja 1 – Pljevlja 2	2,8	2,8
	28	Totcjep - Vilusi	0,5	0,5
TOTAL		505,9	525,0	
100kV cables	1	Podgorica 3 - Podgorica 5	3,6	3,6
	TOTAL		3,6	3,6
double circuit 110kV overhead lines	1	Perućica – Podgorica vod II i III	32,6	32,6
	2	Perućica – Nikšić vod I i II	12,8	12,8
	TOTAL		45,4	45,4
110kV overhead lines under 35kV voltage	1	Pljevlja 1 - Čajniče	20,8	25,8
	2	Nikšić - Brezna	29,2	29,2
	3	Pljevlja 1 - Žabljak	38,5	38,5
	4	Berane - Rožaje	24,1	24,1
	5	Ribarevine - Nedakusi	8,6	8,6
	TOTAL		121,2	126,2
THE TOTAL AT ALL VOLTAGE LEVELS			1342,2	1699,6



**Figure 1**

Electric Transmission System of Montenegro as at 31 December 2013



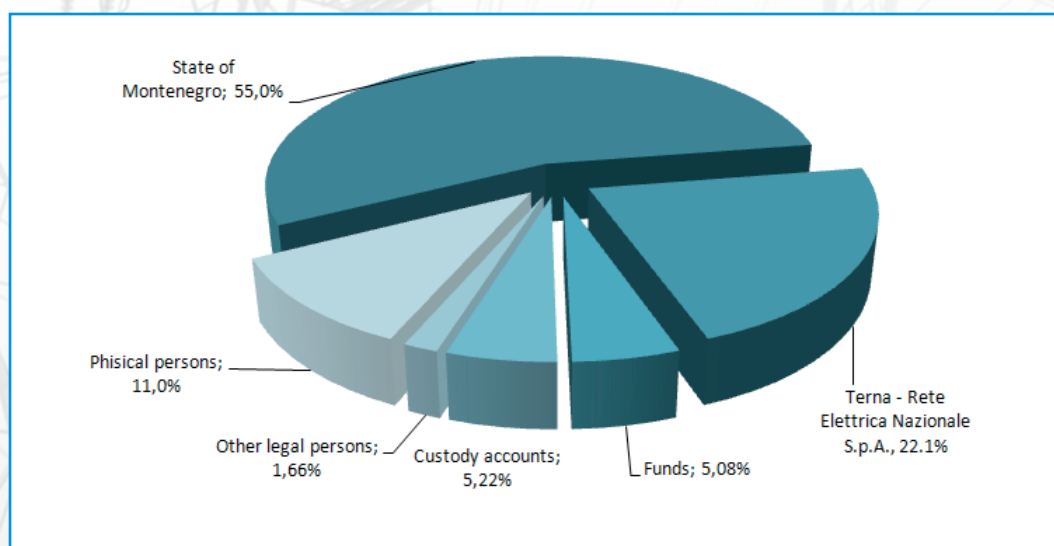
## Transmission Network Users

Three big power plants – HPP “Perućica”, HPP “Piva” and TPP “Pljevlja”, as well as three direct consumers – Aluminum Plant Podgorica, Steel Works “Nikšić” and Railway Infrastructure of Montenegro are connected to the electric transmission network owned by CGES, while owing to this network, around 370.000 of the registered distribution consumers are indirectly supplied with electric power through distribution network.

In addition to producers and suppliers of electric energy which have a license for performing electric power activities within Montenegro, transmission network is used by around twenty regional electricity traders with the aim of accessing cross-border transmission capacity.

## Ownership Structure

The total number of Company's shareholders as at 31 December 2014 was 8.021. The majority owner of Crnogorski elektroprenosni sistem a.d., the state of Montenegro holds 55,00 % of the Company's shares, the Strategic partner, an Italian national transmission operator, the company Terna Rete Nazionale S.p.a. holds 22.0889% shares while on 31 December 2014, natural persons owned 10,9559 % of shares, joint venture funds owned 5,0805 % of shares, custody accounts owned 5,2162 % of shares, and other legal persons owned 1,6585 % of shares. Ten the biggest shareholders of the Company hold almost 90% shares.

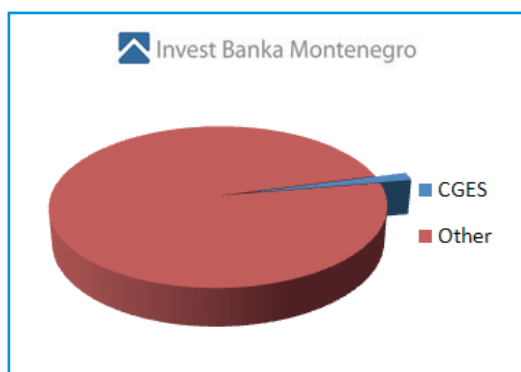


**Chart 1** - Ownership Structure of CGES as on 31 December 2014

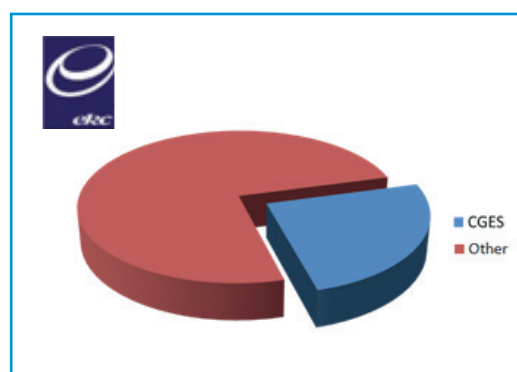
## Interest of CGES in Equity of Other Companies

CGES as at 31 December 2014 was the owner of 4140 shares with a nominal value of 51.1292 euros, which makes the ownership interest of 1, 5290% in the capital of Invest Bank Montenegro AD Podgorica.

As one of the four founders of Elektroenergetski koordinacioni centar from Belgrade (EKC), CGES owns the ownership interest amounting to 49.548,31 euros which makes 25,00% capital of EKC. EKC, founded with the aim of coordinating operation of electric power systems of Montenegro, Serbia and Macedonia, has become a referential consulting house in South East Europe, constantly providing support to CGES and other owners in both operational work and strategic planning.

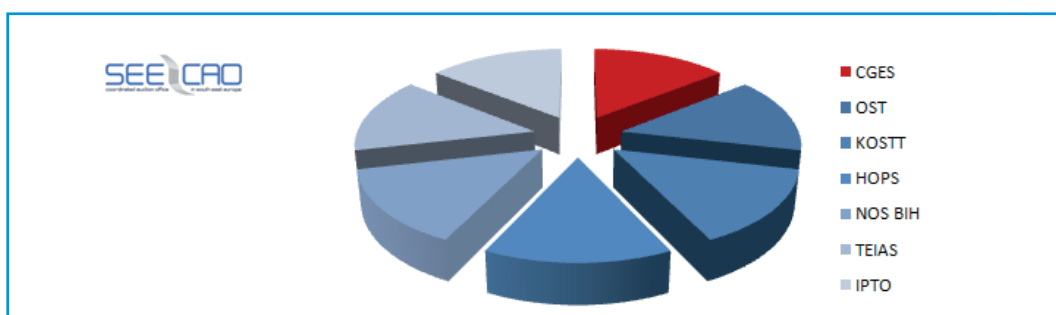


**Chart 2**  
Ownership interest of CGES in Invest Bank Montenegro



**Chart 3**  
Ownership interest of CGES in EKC

Following an example of the formation of seven European Regions and pursuant to the Regulations of the European Commission 1228/2003, Ministerial Council of Energy Community made a decision on the formation of VIII Region on 27 June 2009, with the aim of implementing common procedures of the congestion management in transmission network of member countries. Pursuant to the provisions of the Regional Action Plan of Opening Wholesale Market and European Target Electricity Market Model, transmission operators from Slovenia, Croatia, Bosnia and Herzegovina, Romania, Montenegro, Albania, Macedonia, Kosovo, Greece and Turkey established a project company on 13 June 2012 with the head office in Podgorica, with the aim of creating preconditions for operation of regional auction office for allocation of cross-border transmission capacity. At beginning of 2014, the project company changed into functional auction house – SEE CAO d.o.o. Podgorica, in which CGES is owner equal with additional six regional system operators.



**Chart 4** – Ownership interest of CGES in SEE CAO

# International Cooperation

## Membership in ENTSO-E

CGES cooperates with the European transmission system operators within the European network of transmission system operators - ENTSO-E. The aim of cooperation, declared in the Regulation of the European Parliament 714/2009 as of 13 July 2009 is the promotion of establishing and facilitating the functioning of regional and internal electricity market of the European Union, cross-border trade, as well as ensuring optimal management, coordinated operation and appropriate technical development of the European electricity transmission system.

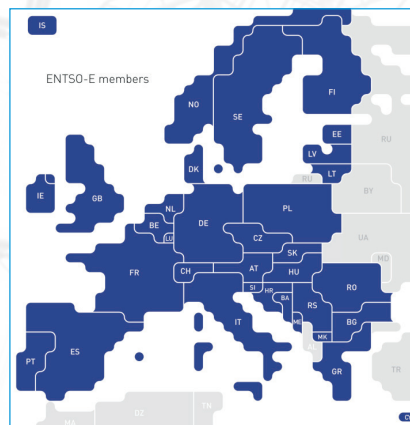


Figure 2 – Member States of ENTSO-E

As one of the founders of the ENTSO-E Organization, which today counts 41 members from 34 European countries, CGES seeks to implement the declared goals of the organization on the territory of Montenegro, while at the level of association it is involved in making and applying common instruments for the operation of the European interconnection, in order to ensure coordination in normal and emergency conditions.

## Control Block SMM

Crnogorski elektroprenosni sistem AD administers and manages ENTSO-E control area of Montenegro. The control area of Montenegro is part of a control block SMM, which also includes the control area of Serbia and Macedonia. Coordination of SMM block is performed by the transmission system operator of Serbia - EMS, cooperating with CGES and Macedonian transmission system operator MEPSO.

## Membership in MedTSO

Within the Association of the Mediterranean Transmission System Operators – Med TSO, CGES cooperates with transmission system operators of the Mediterranean countries. This association is founded with the aim of promoting development plans and work of electric power system of Med – TSO countries, and CGES as one of founders Med – TSO association, which has 17 members, endeavors to contribute to implementation of declared objectives, making of decisions and work of this association.

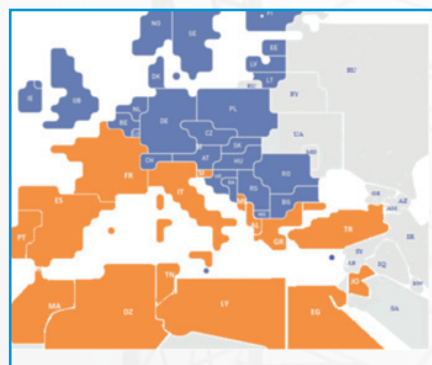


Figure 3 – Member countries of MedTSO







# Highlights in 2014

## February

07

February

### First high-voltage underground cable officially put into permanent operation

First 110 kV cable line in Montenegro transmission network, connecting substations 110/10 kV "Podgorica 3" on Cvijetin Brijeg and "Podgorica 5" on Zabjelo, is put into permanent operation. Besides symbolically indicates beginning of new approach in transmission system development in urban areas in Montenegro, this electric power facility is important due to the fact it connected two, up to then, radially supplied electric power nodes, providing them dual power supply, i.e. increase of safety and reliability of supply of consumers from the areas of Zabjelo, Cvijetin Brijeg and Stari aerodrom with electricity. Direct investment in the cable amounted to about two million euros, and CGES parallel invested in associated substation another one million euros.

24

February

### Approved payment of dividends

At the III extraordinary Shareholders Assembly held on 24 February 2014 it has been adopted the decision on distribution of dividend for 2012. The total profit of Crnogorski elektroprenosni sistem AD realized in 2012 amounts to € 6.551.490,47, of which was paid to shareholders, after deduction of income tax, € 5.961.856,33. Net amount of dividend per share amounted to € 0,0408.

## March

28

Mart

### Contract signed on construction of connection OHLs SS 400/110 kV Lastva from Lastva to Čevo

Within the implementation of activity on connection of electric power systems of Montenegro and Italy, and after procurement carried out according to procedures of the European Bank for Reconstruction and Development (EBRD), on 17 March 2014 it has been signed the Contract for designing, procurement of equipment and construction of OHL 2x400 kV Lastva – Trebinje and Lastva – Pljevlja (section Lastva – Čevo) with renown Spanish company Iberdrola. By implementing this contract, along with the contract for construction of SS Lastva signed in end of 2013 with company Siemens, it will be ensured the construction of energy infrastructure which will allow connection of undersea cable with Montenegrin electric power system.

28

Mart

### CGES joined the "Earth Hour"

Already traditionally, CGES joined also in 2014 the global action "Earth Hour" promoted in Montenegro by the non-governmental organization "Green Home". Through a symbolic turning off of lighting on its facilities, and estimation of saving in real time due to carrying out of one hour action of turning off lighting by the citizens and economic entities, our company confirmed also symbolically its devotion to the sustainable development, encouraging energy efficiency and renewable electricity sources, all with the aim of preserving the environment.

Optimally planned and regularly maintained electric power network managed in an efficient manner, represent an irreplaceable segment of an efficient self-sustainable electric power system. We plan the future development of the system by being aware of this fact also.

## April

07  
April

### Agreed construction of the new substation in Nikšić

Contracts signed for implementation of project of construction SS 110/35 kV Kličevo and 110 kV cable Nikšić – Kličevo in the amount of 5,1 mil € with the consortium Novi Volvox, Eminent, Ing Invest, Institut Sigurnost and EuroZox (SS Kličevo), that is 3,3 mil € with the consortium Bemax, Energomontaža and Institut Sigurnost (110 kV cable).

Significance of this project of construction of SS 110/35 kV Kličevo and 110 kV cable Nikšić – Kličevo, besides a more reliable and safer electricity supply of consumers, is that it will allow connection of new generation capacities on the transmission network, i.e. Wind farm Krnovo, electric-traction plant for needs of Railway infrastructure, as also consumers which will be connected to the electric-distribution network.

## June

13  
June

### Commencement of enforcement of receivables between EPCG and CGES

Outstanding receivables with Elektroprivreda Crne Gore from 2013, as also persisting refusal of this undertaking to proceed in accordance with valid decisions of the Energy Regulatory Agency and pay the transmission network use in capacity of producer ("G-component"), culminated in 13 June by submitting a request for receivables enforcement based on energy for system balancing, energy delivered for coverage of transmission network losses in first half of 2013, by EPCG. Based on ERA methodology, CGES submitted a request for enforcement of network charge in the same period, and then also for enforcement of G-component from beginning of 2014. All disputes, except the enforcement of G-component, represent currently the subject of negotiations on relation CGES, EPCG, Ministry of Economy, while for the G-component issue is expected a consistent application of regulations adopted by competent state authorities.

24  
June

### Contract signed on connection of distribution system operator

Completion of separation process in the electric power sector is a long and technically demanding work which is necessary to perform in a way that will not endanger supply of end consumers. Although the obligation of signing contracts on connection of all existing users was prescribed still by the 2010 Energy Law, this work was possible to perform just after four years. CGES succeeded to agree and sign such contract with the distribution system operator on 24 June 2014. The contract defines rights and obligations of the two operators in terms of management, handling and maintenance of equipment by connection points. Besides the distribution operator, the initiative of our Company was also successful with two out of three large consumers directly connected to the transmission network, while signing of contracts with electricity producers is expected in the following period. In that way will be completely encompassed regulation of mutual rights and obligations of all undertakings connected to the transmission system, and mutual relations will be regulated in a much appropriate manner with respect to the previous multi-year practice.



27

June

**Ordinary Shareholders Assembly and new Board of Directors**

V ordinary annual CGES Shareholders Assembly was held on 27 June 2014. Besides the decision on approval of 2013 Operating Statement, 2013 Financial Statements along the auditor's report and decision on selection of auditor for 2014, three new members of the Board of Directors were selected at the Assembly, which from that day is composed of: Chairman Dragan Laketić, Vice Chairman Luigi De Francisci and members Igor Noveljić, Nusret Ećo, Vesna Bracanović, Francesco Becalli and Lazar Janinović.

**July**

01

July

**Association of employees on the Day of the Company**

On the occasion of 1 July, Day of CGES, management and Union organization organized on 5 July an association event on Ivanova korita for employees and members of their families. Good atmosphere and positive impressions are the best recommendation for further collaboration of the union and management on a common objective – providing adequate working conditions and cultivation of good interpersonal relationships in the Company.

03

July

**Agency determined corrections of regulatory allowed revenues and prices**

In accordance with its legal authorizations and Rules for changing electricity tariffs, the Energy Regulatory Agency determined corrections of electricity transmission tariffs, and due to correction of costs corrections of return on assets, performed assets evaluation, which the Regulator corrected subsequently, and introduced fees paid by electricity producers in the country. Although total allowed revenue of the operator is not significantly decreased, the way of its collection conditioned significantly a more difficult CGES operation, particularly regarding liquidity, and this dominantly due to EPCG refusal to apply completely the newly established regulatory framework.

11

July

**Seminar and round table on the topic "Connection of renewable energy sources"**

Under organization and support of CGES, on 10 and 11 July 2014 was held a seminar in Podgorica on the topic "Connection of renewable energy sources". Two days presentations and discussions, held by lecturers of the Knowledge Innovation Center of EKC, were attended by representatives of the Energy Regulatory Agency, Faculty of Electrical Engineering in Podgorica, Ministry of Energy, Montenegrin Electricity Market Operator, Elektroprivreda Crne Gore and KfW bank. The seminar and round table is just one of many discussions through which CGES intends to acquaint the professional public with current events on ENTSO-E interconnection level, as also with regulations whose preparation on EU level and country candidates is entrusted to transmission system operators.

**August**

08

August

**New decision on "G-component"**

After the Decision adopted in 2013, the Board of the Energy Regulatory Agency adopted at beginning of August 2014 the Decision on approval of charges and prices paid by electricity producers connected to the transmission system to Crnogorski elektroprenosni sistem AD Podgorica for using transmission capacity.

Due to refusal of EPCG to sign the Contract on transmission network use for needs of electricity producers for 2014 and return of invoices which CGES issued pursuant to the

Decision of the Regulator, CGES initiated enforcement proceedings for the entire 2014. In these proceedings EPCG filed appeals within the legal deadline to the Commercial Court in Podgorica, which adopted the same and passed the cases into litigation in order to determine the state of facts. One of these invoices was collected based on the Decision on enforcement for December 2014, in the amount of € 1.062.703,46.

## October

06  
Oktober

12  
Oktober

### Record in quality of regulation

2014 was marked with very quality work in regulation of control area of Montenegro which, within the common SMM control block, is managed by CGES. In the second week of October, regulation of powerexchange with neighboring systems was reduced to record 93% reductions of undesired deviations of the control area from the plan into the recommended scope of  $\pm 20$  MW. A record quality of regulation within the SMM block followed as a crown of constantly good regulation from the establishing of balance mechanism. Thanks to that, the work of Montenegrin control area was better from the other areas in 87% of time during the year, and it was regulated also the complete cumulative of undesired deviations from the previous year. By working in this way, the complete Montenegrin electric power sector elevated on a new level of work quality in this segment, and the established balance mechanism, besides the financial incompleteness, proved its full technical justifiability.

## November

28  
Novembar

### 28.11. First coordinated auction of cross-border capacities

After long-standing activities on agreeing a common approach to allocation of cross-border capacities in the South-East Europe, the common auction house, whose owners are seven regional transmission system operators, carried out the first coordinated auction for allocation of cross-border capacities. The auction house SEE CAO, with its seat in Podgorica, it's the first functional regional initiative in the field of energy, and by establishing and allowing its work, the transmission companies of Croatia, Bosnia and Herzegovina, Albania, Kosovo, Greece, Turkey and Montenegro showed their full devotion to fulfilment of their obligations arising from application of the third package of EU energy regulations, i.e. of the Energy Community.

Commencement of coordinated auctions is particularly important for CGES due to the fact that the only regional energy company with seat in our country, by this event, confirmed its willingness and functionality, and by ceding its borders into the coordinated mechanism, Montenegro, together with Bosnia and Herzegovina, is released of all court proceedings initiated by the Secretariat of Energy Community against Serbia, Albania, Montenegro and Bosnia and Herzegovina due to noncompliance with the Agreement on establishing of Energy Community in this field.

28  
November

### 28.11. Contract signed on construction of 400 kV overhead line Čevo – Pljevlja

After procurement carried out according to procedures of the European Bank for Development and Reconstruction (EBRD) on 28 November 2014, it has been signed a Contract for designing, procurement of equipment and construction of OHL 400 and 400/110 kV Čevo – Pljevlja with the Consortium Energoinvest B&H and Energomontaža Srbija. By signing this contract, contracts for implementation of all projects being part of the Montenegrin grid and are related to the implementation of connecting electric power systems of Montenegro and Italy.



# Technical data

## Investments

During 2014, activities were conducted on implementation of investment projects in the amount of 28,20 mil €. Due to a significant amount of funds and also large number of projects, special attention is dedicated to the investment plan implementation. Projects related to implementation of connection between electric power systems of Montenegro and Italy are implemented within the planned scope, provided that contacts signed for implementation of construction of overhead line are significantly more favorable than the plan, which had as consequence that the percentage of financial implementation of this part of the plan does not reflect good enough the real high fulfillment percentage of planned obligations. Investing in the rest of the electric power system of Montenegro is planned the amount of 8,8 mil € is implemented with very good 98,4%. We underline the following projects as the most important.

*Besides a good implementation of the belonging part of the project of connection of Montenegro and Italy, in 2014 was achieved the record*

**98,4%**

*of the Investment Plan in the remaining domestic transmission infrastructure*

### 1. 400/110 kV SS Lastva, 400 kV OHLs Lastva-Čevo and Čevo-Pljevlja

400/110 kV SS "Lastva", 400 kV OHLs "Lastva-Čevo" and "Čevo-Pljevlja" is a contractual obligation arising from the Contract on the Project Coordination for the Construction of the HVAC Submarine Cable between Montenegro and Italy. It is important to mention that the construction of SS 400/100/35 kV "Lastva" will solve in long-term the issue of safety and reliability in electricity supply of the Montenegrin coast.

The project involves construction of the following:

- ◆ SS 400/110/35 kV "Lastva", with power 2x300 MVA, GIS principle;
- ◆ 400 kV "Lastva – Čevo", according to the "input – output" principle from SS "Lastva" to the OHL "Podgorica – Trebinje" and a section of the 400 kV "Lastva – Pljevlja". The 400 kV overhead line from Lastva to Čevo is about 35 km long, with one single circuit and one double circuit line running parallel to it;
- ◆ 400 kV OHL "Čevo – Pljevlja", 115 km long, is constructed as a double circuit line 40 km long from Brezani to Kosanica. The construction of this OHL will close the internal Montenegrin ring and improve the reliability of the power system.

Activities in 2014 were carried out according to the planned dynamics in accordance with signed contracts, for all sections of the projects.

### 2. Construction of the 110/35/10 kV SS Kotor (Škaljari) and 110 kV OHL Tivat-Kotor (IP 001)

The construction of the 110/35/10 kV SS "Kotor" (Škaljari) and the 110 kV OHL "Tivat – Kotor" is a project of connecting one of the most important tourist centers of Montenegro



to the transmission network, which would significantly reduce the problem of supplying the consumers of the Municipality of Kotor with electricity.

The implementation of the project includes:

- ◆ construction of the 110/35 kV SS "Kotor" (Škaljari) 2x20 MVA in GIS,
- ◆ construction of the 110 kV OHL "Tivat – Kotor" and
- ◆ installation of a new 110/35 kV Transformer, 20 MVA.

The planned works on the construction of the 110/35 kV SS "Kotor" were completed.

During 2014, project documentation for construction of OHL 110 kV "Tivat – Kotor" was drafted, equipment and steel construction were procured, and contract for procurement of new 110/35 kV, 20 MVA transformer was signed.

Completion of the project is expected during 2015.

### 3. Construction of the 110/10 kV SS Kličevo and access lines (IPI 012)

The significance of this project, except a more reliable and safer electricity supply of consumers, is that it will allow connection of new production capacities to the transmission network, i.e. Wind farm Krnovo, electric-traction plant for needs of Railway infrastructure, as also consumers which will be connected to the electric-distribution network.

This project includes the construction of:

- ◆ TS 110/10 kV SS "Kličevo" in GIS principle, on the location of the existing SS 35/10 kV "Kličevo";
- ◆ cable line 110 kV, 4 km long, to the existing SS 110/35 kV "Nikšić";
- ◆ equipping of the belonging bay, and modernization and installation of protection and control systems in the existing SS 110/35 kV "Nikšić".

During 2014, contracts were signed for construction according to a "turnkey basis", in the amount of 8,4 mil €, the largest part of technical documentation was done in accordance with the agreed dynamics and a significant part of electrical equipment was delivered.

Completion of the project is expected during 2015.

### 4. Reconstruction of the protection systems throughout the grid (IPR 006b)

In order to modernize the system of protection and management of all substations, it has been planned the installation of the microprocessor protection and management. CGES performed in the previous period the reconstruction of the protection system (installation of new protection and management cabinets) in the 400 kV network. Implementation of project of protection system reconstruction in 220 and 110 kV network is split in two phases.

During 2014, activities were conducted on implementation of first phase within which was performed successfully the implementation of the contract signed in 2013. The contract includes procurement of equipment, drafting of project documentation and work performance on reconstruction of protection and management in the 400/110 kV SS "Podgorica 2" (110 kV plant), the 400/220/110 kV SS "Pljevlja 2" (220 and 110 kV plants) and the 220/110/35 kV SS "Mojkovac".

All planned works for 2014 were completed in time, therefore it is expected a successful completion of works envisaged in the first phase of the project within end of September 2015.

In parallel with implementation of the first phase, works were performed during 2014 on preparation of concept and documentation for the final phase, reconstruction of protection and management systems in the transmission network.

Completion of the project is expected during 2018.

### 5. Extension of the 220/110/35kV SS Mojkovac

After completion of reconstruction of plant 220/110/35 kV "Mojkovac" in 2013, the project of extension of SS 220/110/35 kV "Mojkovac" for one new transformer bay 110/35 kV was recognized as a priority, which will ensure the n-1 criteria in transformation 110/35 kV in the transmission network point from which are supplied the Municipalities of Mojkovac and Kolašin. Additionally, the project is important also from the aspect of providing conditions for connection of renewable electricity source, primarily little hydro power plants, and also from the aspect of providing conditions for an undisturbed development of also other investment projects on the area of Mojkovac and Kolašin.

The Project implementation includes:

- ◆ construction of new 110 and 35 kV transformer bay and reconstruction of own substation consumption and
- ◆ procurement of new 110/35 kV, 20 MVA transformer.

During 2014, the contract for procurement of new transformer 110/35 kV, 20 MVA was signed, as also the contract for construction of new transformer bays according to a "turnkey basis". Building permit obtained, so commencement of construction is expected after completion of technical documentation.

Project completion is expected during 2016.

### 6. Relocation of 110 kV overhead line Nikšić – Bileća from the Dragova Luka region

110 kV overhead line Nikšić – Bileća was constructed in 1957 according to all, in that time, valid regulations. However, in the last few decades, in one section of the route which is 6 km long, the facility is affected by illegal construction of facilities of various purpose, which prevented a safe and reliable operation of the overhead line. Reconstruction of the overhead line section in the settlement Dragova Luka will allow in perspective the reconstruction of the entire length of the subject overhead line, up to the substation "Vilusi".

Project implementation was mostly in delay due to very long and complicated solving of property relations.

In 2014 was obtained the building permit, equipment was procured and work performance commenced.

The completion of the project is expected in 2015.



## 7. SCADA for the National Dispatch Center with EMS system

The project involves procurement and implementation of the new SCADA system, both for the existing and backup dispatching center.

The project of introducing the new SCADA system contains from two subprojects:

- ◆ New SCADA systems,
- ◆ Equipping of facilities for remote supervision and control.

Expected benefits of the project are: improvement of the system for supervision and control of the electric power system of Montenegro in ENSO-E interconnection, increase of level of safety and reliability of Montenegro transmission system in real time, timely identification of potential disturbances which can endanger safe and stable functioning of electric power system of Montenegro and entire interconnection, and to allow to take corrective measures for preventing real time disturbances.

Completion of the project is expected in 2018.

## 8. Procurement and implementation of hardware and software for FMIS

This project is implemented with the aim of providing efficient and quality management with CGES resources and implies the procurement and implementation of:

- ◆ computer hardware (servers, workstations, printers, scanners, communication devices and communication infrastructure),
- ◆ system software for servers and workstations,
- ◆ application software and data base for implementation of CGES FMIS (computer information system for management of company's resources), based on ERP solution.

In 2014 were implemented works related to the procurement and implementation of hardware, back-up system and storage system, which allowed the implementation of production, test and archive instance for ERP4ME software, and also was implemented the program module "Financial Monitoring of Investments"; and also the upgrade of program module for financial reporting from the program module "General Ledger" of ERP4ME software.

Completion of the project is expected during 2017.

## 9. Reconstruction of OHL 110 kV Bar-Budva near Buljarica

The project involves reconstruction of section of the overhead line between towers number 50-56, in which in more occasions during the last three decades occurred more failures which included breakdowns of towers and relatively long time of overhead line unavailability until repair.

In order to avoid similar situations in the following period of overhead line operation, a project for reconstruction of the indicated section was drafted which includes installation of new towers envisaged for more difficult climate and operation conditions.

Contract for implementation of this contract was signed in 2014, and also property relations were solved.

Completion of the project is expected during 2015.

## 10. Reconstruction of the plants

Due to obsolescence of the switching equipment and impossibility to provide spare parts necessary for maintenance, the implementation of replacement of HV equipment, that is reconstruction of several substations, is in progress. We underline as most important:

- ◆ SS 400/220/110 kV "Pljevlja 2" – where is planned the replacement of 400 V circuit breakers, replacement of 220 kV disconnectors in transformer bays 400/220 kV and installation of surge arrester in 400 kV OHL bay Ribarevine,
- ◆ SS 400/110/35 kV "Ribarevine" – where is planned the replacement of 400 kV circuit breakers.

Procurement of complete equipment and signing of contract was carried out in 2014. Additionally, works were performed on preparation of necessary documentation for construction.

## 11. Installation of new energy transformer in SS 110/35 kV Nikšić

One of the energy transformers 110/35 kV, 30 MVA (three single-phase units) in SS 110/35 kV "Nikšić" is in operation from construction of the substation in 1957. Based on results from regular transformer testing, we came to a conclusion that is necessary to replace it with a new one. In order to provide a safer and more reliable operation, it has been planned the installation of a higher power transformer – 40 MVA.

Contract for procurement of new 110/35 kV, 40 MVA transformer was signed during 2014, as also the contract for its installation which envisages construction works of larger scope, both for the disposition and fulfilment of all standard prescribed by the Environmental Protection Law.

The completion of the project is expected in 2015.

## 12. Other projects

In addition to the aforementioned projects, in 2014 extensive works were done on other investment projects, namely:

- ◆ Reconstruction of the OHL 110 kV "Budva-Lastva-Tivat"
- ◆ Construction of SS 110/35 kV "Žabljak"
- ◆ Construction of the OHL 110 kV "Virpazar-Ulcinj"
- ◆ Connection 110 kV "Podgorica 1 – Podgorica 4 (air-cable connection)"
- ◆ Construction of the 110 kV OHL "Lastva-Kotor"
- ◆ Upgrade of hardware and software in NDC SCADA system
- ◆ Revitalization of 110/35 kV SS "Nikšić" (rehabilitation of the portal concrete)
- ◆ 400/110/35 kV SS "Brezna"
- ◆ Construction of the 110/35/10 kV SS "Zeta" and 110 kV OHL "Podgorica 5 –Golubovci"
- ◆ Development, reconstruction, measurement and protection in SS
- ◆ Other investments
- ◆ 400 kV OHL "Pljevlja 2-Višegrad" and 400 kV OHL "Pljevlja 2-Bajina Bašta"



## Maintenance

### Substation maintenance

In accordance with the 2014 Maintenance Plan, as well as the standards and technical regulations on the maintenance of electric power transmission facilities, in the reporting period the Division for Substation Maintenance committed a total of 325 work orders, 93 of which were remedial actions.

In the reporting period, the Department for Substation Maintenance committed a total of forty-two revisions and two overhauls of the high voltage equipment at all voltage levels.

Voltage Level	REVIEW planned/realized	OVERHAUL planned/realized
400 kV	1/1	0/0
220 kV	3/3	0/0
110 kV	14/14	2/2
35 kV	24/24	0/0

**Table 2:** Summary of activities of Department for Maintenance of Substations for 2013

In addition to the planned overhauls and revisions, the planned replacement of the HV circuit breakers, disconnectors, measuring transformers and surge arresters - 400, 220, 110 and 35 kV was carried out also.

The following HV equipment was replaced:

Equipment name	Quantity
35 kV Circuit breaker	4
110 kV Circuit breaker	4
220 kV Surge Arrester	3
110 kV Surge Arrester	9
35 kV Surge Arrester	6
220 kV Current Instrument Transformer	23
220 kV Voltage transformer	12
110 kV Current Instrument Transformer	28
110 kV Voltage Instrument Transformer	17
40 MVA Power transformer	1

From all the remedial actions for which additional equipment and hiring of a large number of staff were necessary, the following stand out:

- ◆ Breakdown repair in OHL cell Stari Bar in the SS 110/35 kV Bar.
- ◆ Replacement of the damaged 110 kV SMT and NMTR in the 110 kV OHL bay KAP 2 in SS 400/110 kV Podgorica 2.

- ◆ Replacement of the damaged 110 kV SMT in the 110 kV OHL bay Podgorica1/2 in SS 400/110 kV Podgorica 2.
- ◆ Replacement of the capacitors on 400 kV circuit breaker in the transformer bay T1 400 MVA in the SS 400/220/110 kV Pljevlja 2.
- ◆ Replacement of the 110 kV circuit breaker pole in the OHL bay Podgorica 2 in SS 110/35 kV Budva.
- ◆ Replacement of the 35 kV circuit breaker in the OHL cell Danilovgrad in SS 220/110/35 kV Podgorica 1.
- ◆ Replacement of the 400 kV line post insulators on the bus bar system in the SS 400/110 kV Podgorica 2.
- ◆ Replacement of the power transformer and 110 kV circuit breaker in the transformer bay T2 40 MVA in SS 110/10 kV Podgorica 3.
- ◆ Replacement of the 110 kV circuit breaker in OHL bay Podgorica 1 in the SS 110/10 kV Podgorica 3.
- ◆ Replacement of the 110 kV circuit breaker in OHL bay Podgorica 3 in the SS 220/110/35 kV Podgorica 1.

## Overhead lines maintenance

The 2014 Maintenance Plan, as well as the standards and technical regulations on the maintenance of electric power transmission facilities, in the reporting period the Division for Overhead Line Maintenance performed 88 check-ups and 13 overhauls of overhead lines. The overview of activities by voltage levels is shown in Table 3.

	OVERVIEW planned/realized	OVERHAUL planned/realized
400 kV	10/10	2/2
220 kV	14/14	2/2
2x110 kV	4/4	0/0
110 kV	52/48	8/8
110(35) kV	10/10	2/2
<b>Σ</b>	<b>90/86</b>	<b>14/14</b>

**Table 3:** Overview of the activities of the Division for OHL Maintenance in 2014.

Upon making the aforementioned line check-ups, all the defects which were estimated to be likely to affect the transmission lines operational safety were eliminated. The cutting down of forests in the transmission line route was completed in the range of 900.000m<sup>2</sup> which is by 50% more than planned leading to increased operational readiness of the lines. The transmission lines were built approximately 18.000 kg of the missing structures.

During this period, the Department for OHL Maintenance made 40 emergency remedial actions and 61 repairs within the current OHL maintenance.

The employees of the said Division also performed a range of other activities, such as dismantling of dampers and cleaning of line post insulators, leading or participating in several investment projects, revising the project documentation supervising the execution etc.

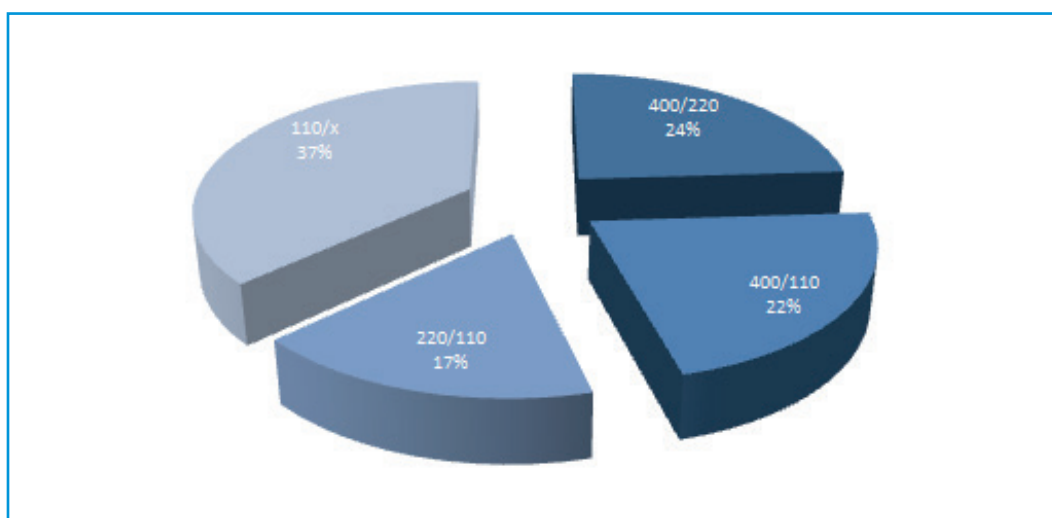


Also, an overhaul of the OHL 2x110 kV Perućica - Nikšić line I and II was carried though not envisaged by the Investment and Current Maintenance Plan.

During the year in question, the replacement was performed of the damaged OPGW in the range of tower no. 54 to no. 73 of the 110 kV OHL Podgorica 2 - Cetinje.

## Testing of high voltage equipment and protective relays

According to the Energy Law Transmission System in Montenegro consists of 22 transmission facilities and overhead lines at 110kV, 220kV, 400kV voltage level, and 48 transformers with a total installed capacity of 3399 MVA transmission ratio of 400/220 kV, 400/110 kV, 220/110 kV and 110 kV / x.



**Chart 5** - Installed capacity of power transformers of CGES by voltage levels

In the reporting period, Department of Protection and Testing carried out a total of 215 work orders, including 12 remedial actions.

16 new microprocessor-based protective relays were installed while 66 existing protection relays were checked and tested. The measurement of partial discharge for all instrument transformers in operation was carried out as well a thermal imaging inspection of the entire high-voltage equipment of all facilities and 16 transformers were fully tested.

Voltage level	Planned				Realized			
	Protective relays	Partial discharge and thermography	Thermal imaging inspection of SS	Full testing of ETR	Protective relays	Partial discharge and thermography	Thermal imaging inspection of SS	Full testing of ETR
440 kV	7	81	3	3	3	81	3	3
220 kV	10	84	2	1	10	84	2	1
110 kV	49	455	16	8	18	455	16	12
35 kV	22	122	-	-	15	122	-	-
ETR	46				20			

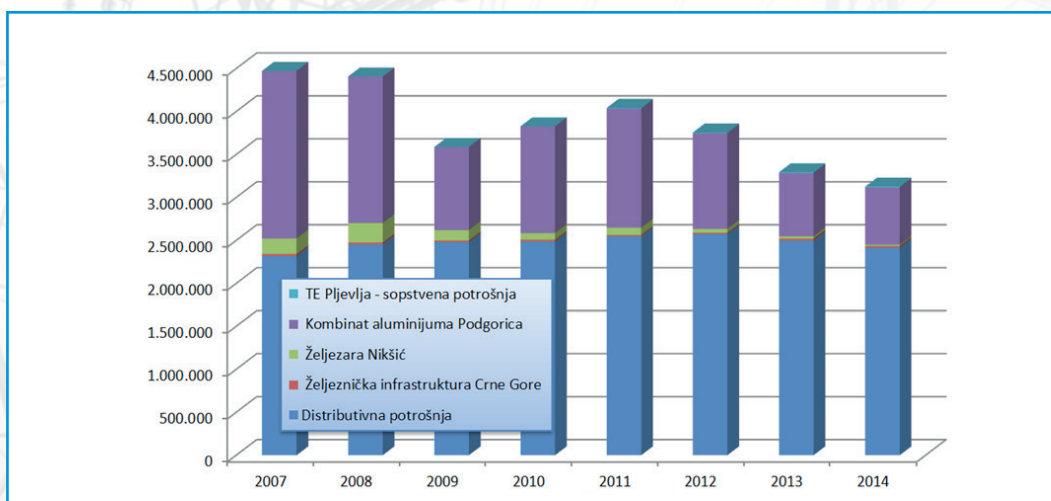
**Table 4:** Overview of activities of the Department of Protection and Testing in 2014

## System control

### Energy transferred in order to satisfy the needs of consumers within the country

The total consumption of electricity in Montenegro in 2013 continued with its downward trend which started in 2008. A continuing decline in electricity consumption of the largest consumers directly connected to the transmission network (for Željezara Nikšić the decline had been constant since 2008, and for KAP Podgorica since 2011) predominantly contributed to the fact that the total consumption in the country diminished from the once customary 4.5 TWh per year (e.g. 4.47TWh in 2007) to 4.04TWh in 2011, 3.75 TWh in 2012 and 3.29 TWh in 2013 and that value was further reduced coming ultimately to the mere 12 TWh in 2014.

This phenomenon not only indicates that some changes occurred in the Montenegrin industry energy demands, but it has a very negative impact on the implementation of the transmission system operators' regulatory allowed revenue. In fact, since the advent of the declining trend in consumption, the decline has grown so much from year to year, that it has outrun by far the financial statement predictions, so the regulatory allowed revenue has been collected for many years now with a one year delay, i.e. only after applying the appropriate corrections. Furthermore, the transmission system has been, since the eighties of the last century, planned and developed for significantly higher consumption regimes within the country, and today's level of domestic consumption makes the 400kV transmission lines in particular underloaded, bringing them into operation modes so far below their "natural power" which enables optimal exploitation from the standpoint of minimum technical losses in transmission.

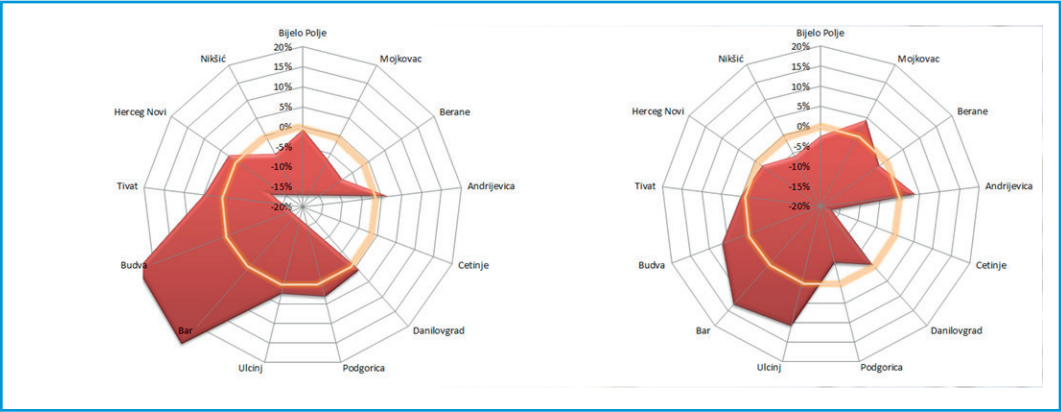


**Chart 6** - The trend of electricity consumption in Montenegro from 2007 to 2014

With a delay of several years, the trend of decline in industrial consumption transferred to a vertical load in relation to the distribution network, and the second year in a row the total volume of electricity delivered to the distribution system operator decreased. Compared to last year it decreased by about 3.5%, and in 2014, 2.42TWh were transferred to the distribution system of electricity.

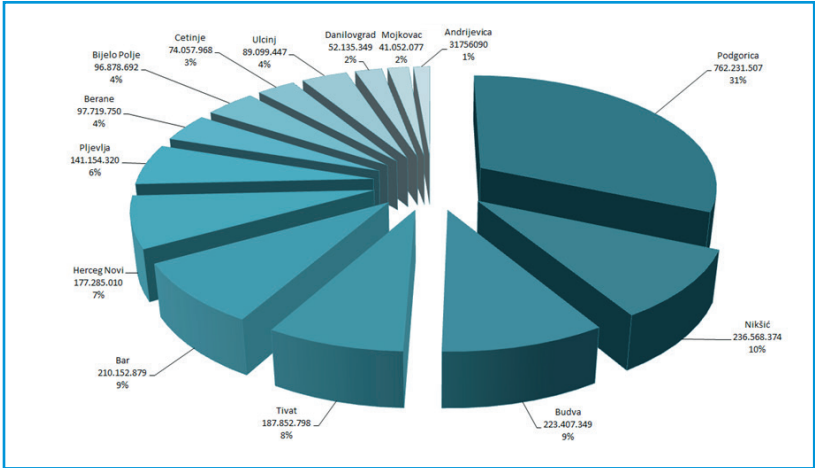
Regarding distribution consumption, it is important to point out that the migration trend of consumption in the northern coastal part of Montenegro continued during 2014.





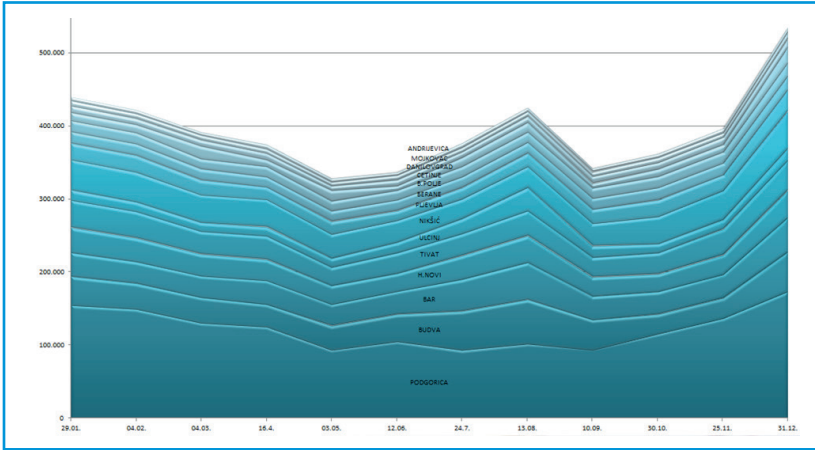
**Chart 7** - Distribution of gradient of the distribution consumption by municipalities for the period 2007-2014 (left) and 2013 - 2014 (right)

Such arrangement confirms the continuation of multi-year trends in migration of consumption centers to Podgorica and coastal municipalities. Extremely discouraging, decreasing trend of consumption in most of the municipalities in the north, with the exception of Bijelo Polje, recorded over a multi-year span somewhat improved during 2014.



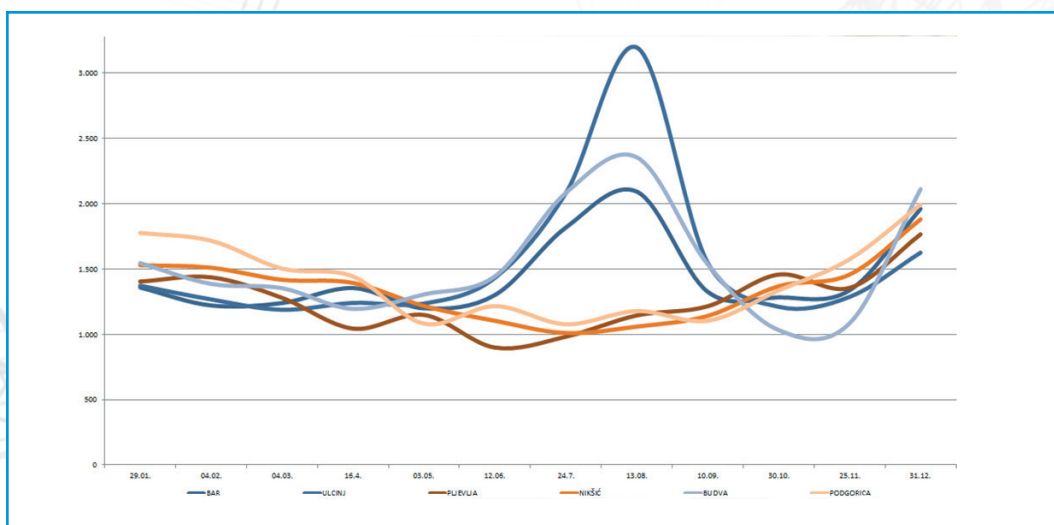
**Chart 8** - Electricity delivered to the distribution network in 2014 in MWh by municipalities

From the perspective of development and total costs of operation of the transmission network, in particular the specific is the ratio of peak powers in the connection points of the distribution system, according to average annual power consumption. By observing Chart 10 it could be concluded that the peak load of the transmission system, required by the distribution system, does not vary much during the year.



**Chart 9** - Participation in the simultaneous distribution system peak load, by municipalities (kW)

A more detailed analysis, especially in view of the ratio of peak power and average annual power load, however, it can be noticed that this ratio speaks in favor of the fact that due to the strategic development orientations of the national economy it is necessary to develop the transmission system which is not characterized by high utilization. Because of the high consumption during the summer tourist season, the connection point on the coast record maximum consumption during that period. The fact that the trend of consumption per month of these municipalities are often opposite to the direction of consumption in the central and northern part, makes the consumption(load) curve at the national level more balanced, but this does not mean that individual connection points can be more relieved.



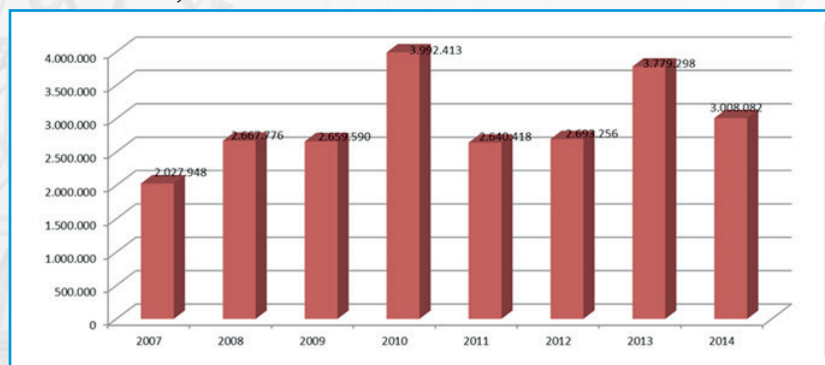
**Chart 10** - The ratio of maximum and average annual power consumption on the connection points of the distribution system

Exactly chart 11, and the fact that the peak load in SS Ulcinj, during the month of August, more than 3 times exceeds the annual average power, best illustrates very little utilization of installed infrastructure beyond the tourist season.

This, of course, the overall network makes relatively expensive compared to the total amount of transmitted electricity for domestic distribution consumption.

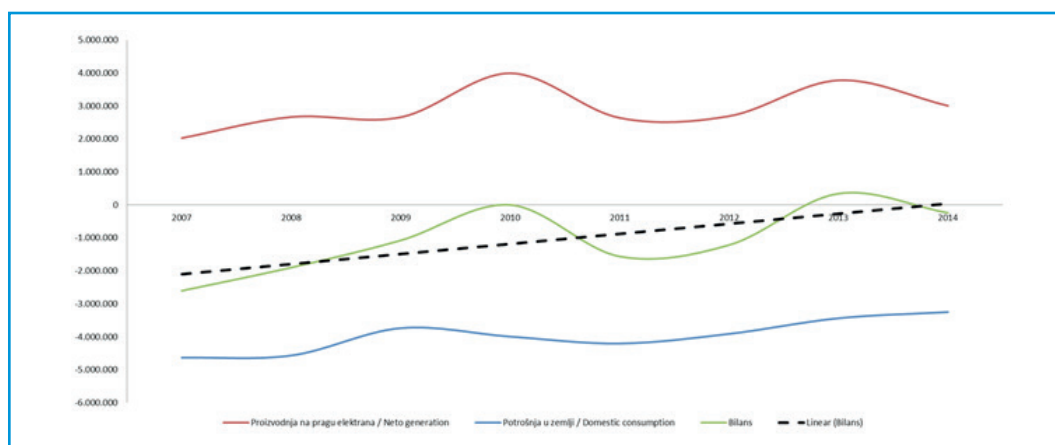
## Energy transferred to satisfy the domestic production needs

After very favorable hydrological conditions in 2013, 2014 was in this respect a fair average year so from the generation facilities 01TWh of electricity was injected into the transmission system [Chart 10].



**Chart 11** – The power generation of the plants in Montenegro from 2007 to 2014 in MWh



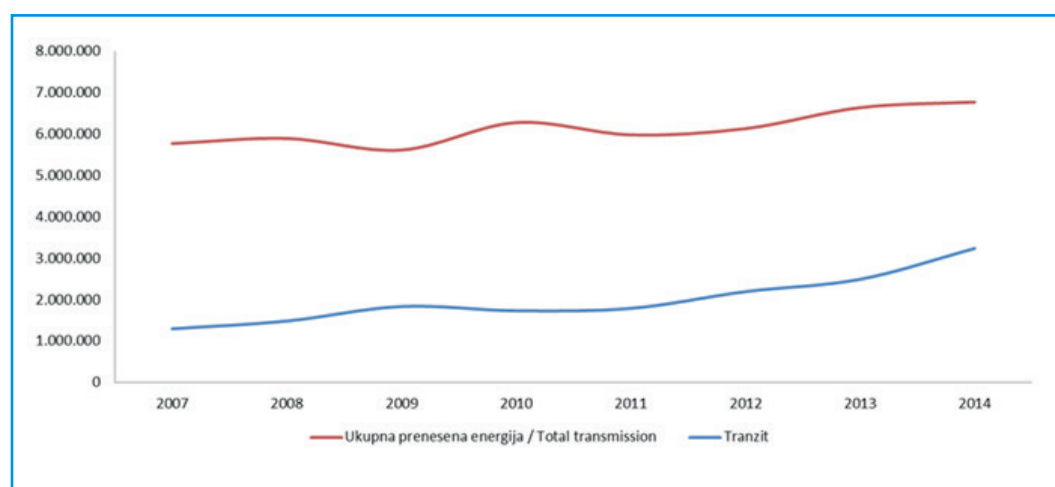


**Chart 12** - The balance of generation and consumption of electricity in Montenegro from 2007 to 2014 in MWh

Because of both the multiannual falling trend of consumption in the country, and the very good hydrology, in 2013 the many decades long electricity deficit tendency was reversed. The domestic production exceeded the total domestic consumption by 0.34TWh, i.e. 9 % of generated power was left over after the domestic consumption needs were satisfied. The balance continued in a hydrologically average year of 2014, while consumption in the country was higher than domestic production only 117GWh, or by less than 4%.

## The energy transited through the Montenegrin power system

The total energy transfer enabled by CGES, continued its upward trend for the fourth time in a row. Despite the alarming decrease in domestic consumption, as well as the fact that the change in total output still predominantly depends on hydrology, in 2014 the transited electricity increased by 29.8 % compared to the previous year, i.e. by entire 60.97 % compared to the average of the previous five-year period. The total transit of 3.24 TWh was for the first time higher than the total electricity consumption in the country. Therefore, instead of 22.5 % of the total energy transferred in 2007, the transit in 2013 accounted for 47.4 % of the total energy transferred by CGES.



**Chart 13** - Trend of total electricity transmitted and transit of the power transmission network of Montenegro in the period between 2007 and 2014 in MWh

Long-term growth trend of the total amount of transited energy are the best confirmation of the adequacy of already implemented investments as well as the current ones, aimed at connecting with neighboring power transmission systems, in order to facilitate the transit. Transited amounts of electricity all the more firmly bound Montenegrin power system in the regional community, leading to more efficient use of the available infrastructure and for the time being successfully cover the negative trend of utilization of infrastructure by domestic consumption, as well as the stagnation of domestic production.

## The quality of delivery and cancellation of cross-border capacities

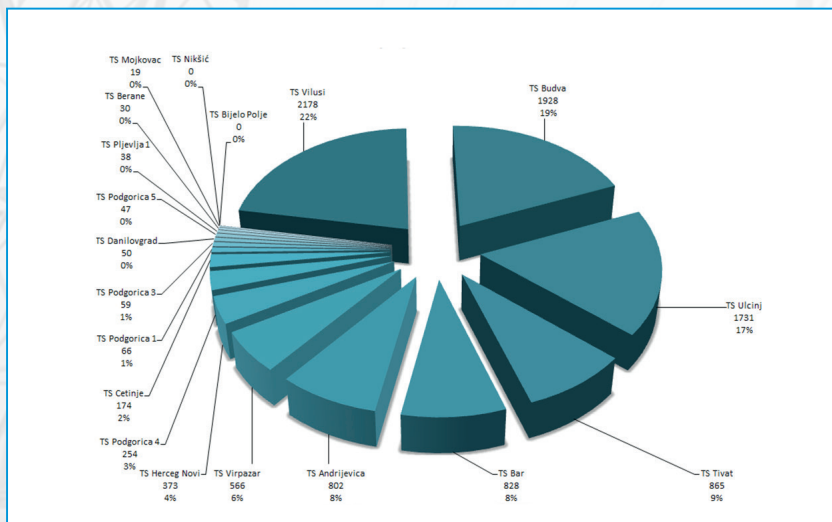
Compared to the previous period, 2014 is characterized by short supply interruptions in the connection points of transmission system users (by 3000 minutes shorter overall interruption compared to 2013). The amount of undelivered electricity is estimated, according to the Methodology for the evaluation of undelivered energy, at 3.595MWh, which is more than the previous reporting period, but is the direct result of supply interruptions in substations covering larger consumption areas.

The total of 99.8821 % of the domestic electricity consumption needs was transferred that year whereby the reliability of the individual centers of consumption was significantly more balanced than in the previous period. From the perspective of the distribution of consumption, the least the least reliable points of energy delivery to distribution operator in 2014 were SS 110/35kV Vilusi with a total duration of supply interruption of 2178 minutes, SS 110/35kV Budva, with a 1928 minute interruption, SS 110/35 kV Ulcinj, with 1731 minutes, SS 110/35 kV Tivat with 865 minutes, SS 110/35 kV Bar, with 828 minutes and SS 110/35 kV Andrijevica with 802 minutes while the most reliable points were SS 110/35kV Bijelo Polje and SS 110/35 kV Nikšić, where there were no supply interruptions, SS 220/110/35 kV Mojkovac with 159minute interruption, and SS 110/ 35 kV Berane, with a total interruption duration of 30 minutes during the whole year. In other substations total duration of interruptions of supply of energy to consumers throughout the year was between 30 minutes and 10 hours.

*Total volume of undelivered electricity from the transmission network to the consumers in Montenegro during 2014 is estimated at*

**0.1179%**

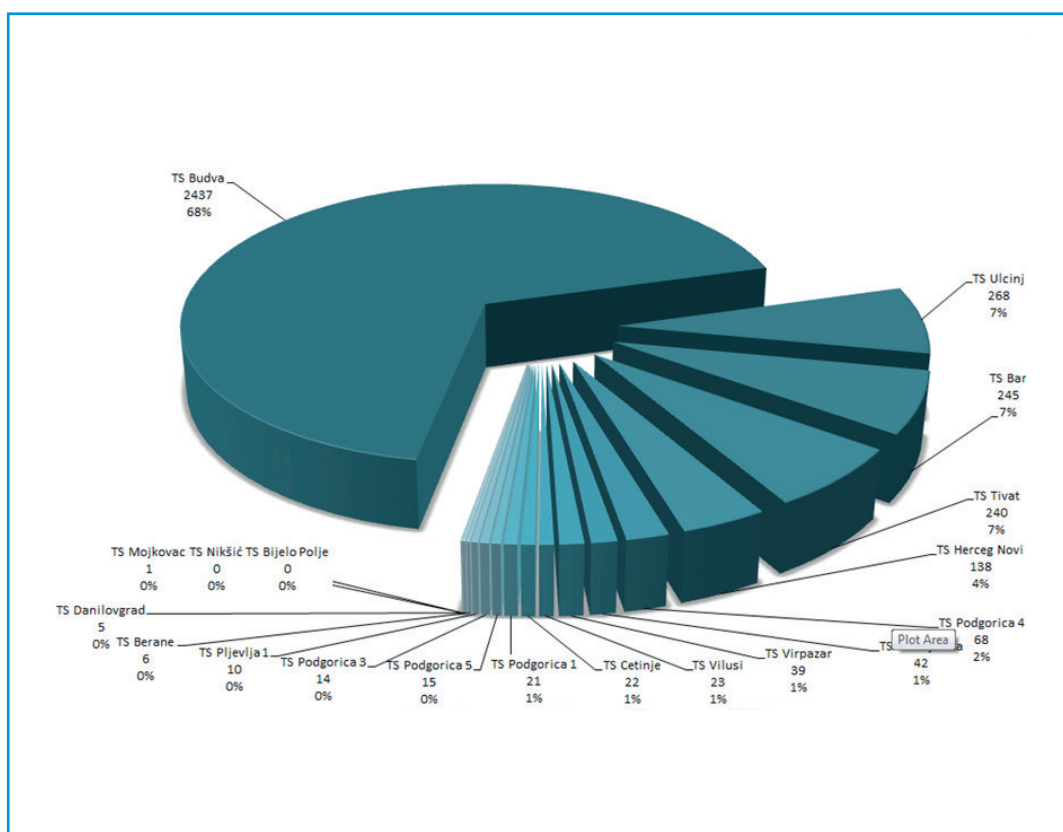
*out of transferred 3.125.5 GWh*



**Chart 14** - The duration of power interruption in 2014 per connection points in minutes and percentage of participation in the overall duration of the power interruption



When it comes to the amount of unserved energy, the least reliable point of energy delivery to distribution operator was SS 110/35kV Budva, with an estimated 2437 MWh or 68 % of the total unserved energy on the territory of Montenegro whereas the most reliable, apart from SS 400/110/35 kV Ribarevine (Bijelo Polje) and SS 110/35kV Nikšić, were also SS Mojkovac, SS Danilovgrad, SS Berane, SS Pljevlja 1, SS Podgorica 5 and SS Podgorica 3, all of them with less than 15 MWh of the total unserved energy in 2013.



**Chart 15** - Evaluation of undelivered electricity per points of connection during 2014 in MWh and the proportional share in the total estimated unserved energy

During the subject year there were no cancellations of cross-border transmission capacity due to unavailability of interconnection lines, and so the availability of the allocated capacity was 100 %, although the total cross-border power transfer through the exchange with neighboring countries (taking over plus delivery) reached a multi-year peak of even 7.529.551,00 MWh, which compared to the average of the previous five-year period represents an increase of 35 %.

*The allocated cross-border transmission capacity available to users was*

**100 %**







# Social Responsibility

The commitment of Crnogorski elektroprenosni sistem to exercise its business as a socially responsible company and to interweave such a relationship with the community in all segments of its operation is reflected not only through the relation towards the main activity which is of particular significance and whose efficient performance represents one of the main prerequisites for development of a modern society, but through the support to the development of various living segments of the environment in which CGES operates.

In this respect, CGES during 2014 supported a number of Montenegrin sport associations, of which the Women's Handball Club "Budućnost" became European champion. One-time financial support is addressed to many primary and pre-school institutions, as well as disabled people and institutions that take care for these members of our community.

Our company takes care of talented individuals who deserve social attention by helping them during their education and vocational training. We have also provided a support to young professionals, creative people, who in the framework of cooperation between business and the science sphere contribute to the development of scientific-research base and thus enhances overall economic development.

Part of our attention over the past year we have focused on a variety of social events such as festivals of puppetry, music, acting and similar cultural and artistic activities.

In addition to these activities, during the unprecedented floods in May 2014, CGES gave its contribution to help Serbia and Bosnia and Herzegovina.

## Regulatory Framework

Montenegro, as member of the Energy Community, assumed the obligation of adapting to new and stricter requirements imposed by the European Union through adoption of new directives in the energy sector. As the legal framework in the mentioned area is significantly changed on EU level, this conditioned the need for further development of the Montenegrin legal framework in the energy sector, that is drafting of innovated law – Energy Law, in which Crnogorski elektroprenosni sistem, together with other interested undertakings, participates actively.

With the aim of developing a clear and foreseeable regulatory framework, as also improving the regulatory process, the Energy Regulatory Agency determined a multi-year second regulatory period. By analyzing the same process of setting regulatory allowed revenue and corrections during the regulatory period, along with consultations with energy undertakings, it has been noted the need to relate the regulatory year, as a twelve months period within the multi-year regulatory period, to the calendar year, all for the purpose of a continuous improvement and more efficient carrying out of the mentioned process.

Rules for changing electricity tariffs provide that, due to changes in some parameters such as investments in the energy sector and significant changes in the uncontrollable or partially controllable costs by energy undertakings, regulatory allowed revenue of energy undertakings, prices and tariffs can change during the validity period. To this effect, the Agency Board on its session held on 03 July 2014 adopted Decision on setting the amount of correction of regulatory allowed revenue and prices for transmission system operator for corrections occurred in the second regulatory year. Although the total allowed revenue of operators was not significantly reduced by the aforementioned adjustments, the manner of its collection caused a significantly more difficult business of CGES, especially in terms of liquidity and is mainly due to the refusal of EPCG to fully implement the newly established regulatory framework.

Methodology for setting regulatory allowed revenue and prices for electricity transmission system use determined that if the investment plan is implemented in a scope less than 85% of the approved for that year, the energy undertaking is obliged to draft an amended investment plan and submit it to the Agency for approval. By complying with provisions of the Methodology, CGES prepared the 2014 Amended Investment Plan of Crnogorski elektroprenosni sistem AD, adopted by the Board of Directors, and submitted it to the Agency for approval. Furthermore, during the actual regulatory period occurred the need for additional investments of CGES in projects which are of importance for Montenegro, with the aim of providing safety of supply in the transmission system of the country. For this reason, and pursuant to the methodology, it has been submitted the request for approval of additional investments of Crnogorski elektroprenosni sistem AD. Decision regarding approving Additional Investments, as also 2014 Amended Investment Plan of Crnogorski elektroprenosni sistem AD by the Energy Regulatory Agency has not been adopted within end 2014, but the process shall be continued in the following year 2015.

The Agency Board, at the session held in August 2014, adopted the Decision on approval of charges and prices paid by electricity producers connected to the transmission system to Crnogorski elektroprenosni sistem AD Podgorica for using transmission capacity. The mentioned decision establishes the annual charge for covering part of costs for using transmission capacity to electricity producers connected to the transmission system. The price paid by the producer is established in accordance with achieved quantities of produced electricity in the monthly billing period, during invoicing the services of using transmission capacity to electricity producers connected to the transmission system.

Due to the refusal of EPCG to conclude Contract on the use of the transmission system for the needs of electricity producers for the year 2014, as well as due to return of invoices that CGES issued in accordance with the Decision of the Regulator, CGES initiated procedures for enforced collection for the entire 2014. In these procedures EPCG within the statutory deadlines, filed complaints to the Commercial Court of Montenegro which adopted the same and referred the cases to civil proceedings, in order to establish the facts. Proceedings are pending before the competent authorities, with a part of receivables collected on the basis of a writ of execution for December 2014, in the amount of € 1,062,703.46.

As for the ancillary and system services, Market Rules has established a balance respon-



sibility for all participants on the electricity market, while the Methodology for setting prices and conditions for providing ancillary and system services and electricity transmission system balancing services defines that the transmission system operator, based on ancillary and system services and balancing services, cannot neither gain profit nor suffer loss. For that reason, and as all balance responsible entities obtain the status of participant in financial settlement of balance calculation, it has been signed the Agreement on reallocating surplus funds arising from the application of balancing mechanism for the year 2014.

Besides mentioned activities during 2014, it's important to emphasize that the monitoring process is carried out by the Agency on a quarterly basis, which represent a mechanism for following the movement, i.e. trend, of both energy and financial parameters of CGES. The Energy Regulatory Agency, together with close collaboration of energy undertakings and interested parties, continuously improves the regulatory framework in the energy sector creating in such way preconditions for development, stability and efficient functioning of the electric power sector in whole.

# Corporative Management

## Shareholders Assembly

The Shareholders Assembly is the highest body of a Company. The competences of the Assembly are provided for by the Companies Act and By-Laws of the Company. The shareholders, through the assembly, pass and approve the most important normative, property, election and status decisions. During 2014, a general annual Shareholders Assembly was held, and one extraordinary session.

## Board of Directors

The Board of Directors is authorized to manage and govern the Company, monitor current business activities and play a central role in corporative management system. The competences of the Board are set by the By-Laws of the Company.

The Board of Directors convenes ordinary and extraordinary Shareholders Assembly; prepares draft decisions for the Shareholders Assembly and enforces its decisions; adopts the Company's Business Plan or any material change thereof and gives guidelines for the implementation; adopts the Company's annual budget or any material change thereof and gives guidelines for the implementation; adopts the Company's investment development plans, including construction plans (and any material – important changes thereof) relating to the associated and additional network infrastructure, including but not limiting to any provisions of these plans for procurement of relevant material; determines organization and systematization of the Company, structure and composition of the management and administration of the Company; adopts interim and determines annual financial statements and operating statements of the Company; proposes distribution of profit; approves any transaction the value of which does not exceed 10 % of the book value of Company's assets; approves conclusion of contracts which are not within the competences of the Shareholders Assembly; adopts general acts within its competences; elects Chairman and Vice Chairman of the Board; appoints and dismisses Executive Director and Company Secretary; proposes a Company's auditor; appoints, dismisses and establishes powers and responsibilities of the management members and decides on other matters provided for by the By-Laws of the Company.

The CGES Board of Directors consists of seven members. At V general Shareholders Assembly held on 27 June 2014, the Board's elected member were Dragan Laketić (Chairman), Vesna Bracanović (member), Igor Novelić (member), Nusret Ećo (member) acting as representatives of the State, Luigi de Francisci (Vice Chairman), Francesco Beccali (member) acting as representatives of Terna Rete Elettrica Nazionale S.p.A. and Lazar Janinović (member) who is a representative of minority shareholders.

During 2014, the Board held six sessions and had five off-session declarations.

The Agenda of the Board mainly consisted of the issues which were envisaged by the Work Plan of the Board of Directors as regular activities of the Board in every business year. In addition to these issues, other current issues during the business year were discussed as well.



Members of the Board are entitled to remuneration for their work in the Board, which is determined by the Decision of the Shareholders Assembly and harmonized with relevant regulations and decrees of competent national authorities.

### Secretary of the Company

The competences and responsibilities of the Company Secretary are provided for by the Companies Act, By-Laws of the Company and a special contract concluded with the Board of Directors of the Company.

The Company Secretary is obliged to ensure that the activities relating to the work of the Shareholders Assembly and the Board of Directors are performed in accordance with the Companies Act, By-Laws of the Company and Rules of Procedure of these bodies. The Company Secretary is responsible for the fulfillment of obligations of the Company towards shareholders, Central Registry of Commercial Entities, bodies responsible for securities and keeping records of the Company's shares, organization and preparation of meetings of the Shareholders Assembly and Board of Directors and for documents relating to the work of these bodies. The Secretary CGES is Olgica Ivanović.

The Company Secretary is responsible for her work to the Board of Directors and is obliged to implement its decisions.

### Management

The Executive Director and his managerial team manage Crnogorski elektroprenosni sistem AD and organize ongoing business activities of the Company.

### Executive Director

Pursuant to the By-Laws of CGES, the Executive Director manages the Company and organizes ongoing business activities of the Company, presents and represents the Company, takes care and is responsible for the legality of the Company's work.

The competences and responsibilities of the Executive Director are provided for by the Companies Act, By-Laws of the Company and a special contract concluded with the Board of Directors of the Company.

The Executive Director is responsible for his work to the Board of Directors and is obliged to carry out orders of the Board of Directors and implement its decisions in connection with the business activities of the Company.

The position of Executive Director in 2014 was held by Ivan Bulatović.

### Management Team

The Board of Directors determines the management structure and appoints management member at the proposal of the Executive Director. During 2014, the positions of directors within the Company were held by Branko Stojković, Director of National Dispatch Centre, Branko Knežević, Director of Elektroprenos, Valerio Mastragostino, Director of Department for Financial Planning, Control and Investor Relations and Željka Hidić, Director of Department of Economic Affairs.

## Transparency of Business Operations

The practice of the Company includes reporting shareholders and the public in accordance with the statutory requirements. CGES ensures transparency of business operations by timely publishing accurate and full information on all significant matters and highlights relating to the Company, including financial operations in a simple and available manner, through the Company's web site and means of public information.

## Salaries and Remunerations

### Salaries

During 2014, the remunerations of members of the Board of Directors and salaries of the management team were kept at the level according to the Conclusions of Government of Montenegro made at the session held on 25 April 2012. A basic monthly salary of the Chairman of the Board of Directors was limited to 3.5 average monthly salaries in the country, the Executive Director's to 3 average monthly salaries in the country and other management members' to 2.5 average monthly salaries in the country.

### Remunerations

All other remunerations of CGES management were limited to one average monthly salary according to the same Conclusions.

### Short-Term and Long-Term Bonuses

The Company's policy of salaries and remunerations did not cover payment of bonuses for the year 2014.

### Other Benefits

Telecommunication costs are covered for members of the Company's management and other employees by the set limit corresponding to the real costs of business talks, all this with the aim of optimizing internal communication within the Company. These costs are limited to 50 € per month which is granted only to a limited number of managers, whereas this limit is lower for other employees.

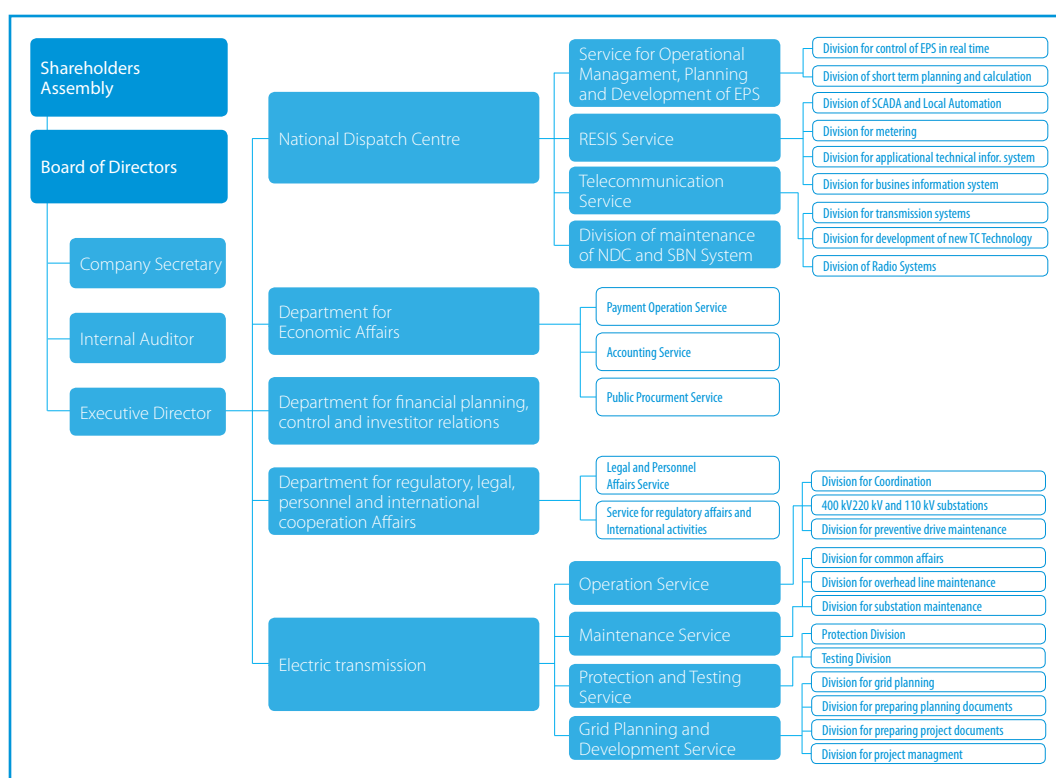
No possibility of using company cars for private purposes is provided for by the Company's Rules, except for extraordinary cases.

## Organizational Structure

Organization and bases of systematization, competences and activities of organizational units, coordination of management and operation and other matters significant for internal organization of the Company are governed by the Rulebook on Systematization. Activities described in Article 11 of the By-Laws of the Company, as well as other activities for the purpose of performing the Company's activities, are organized, coordinated and performed in the Company.

The Company's organizational structure consists of the Company's bodies and organizational units of the Company.





**Figure 4:** CGES Organizational Chart

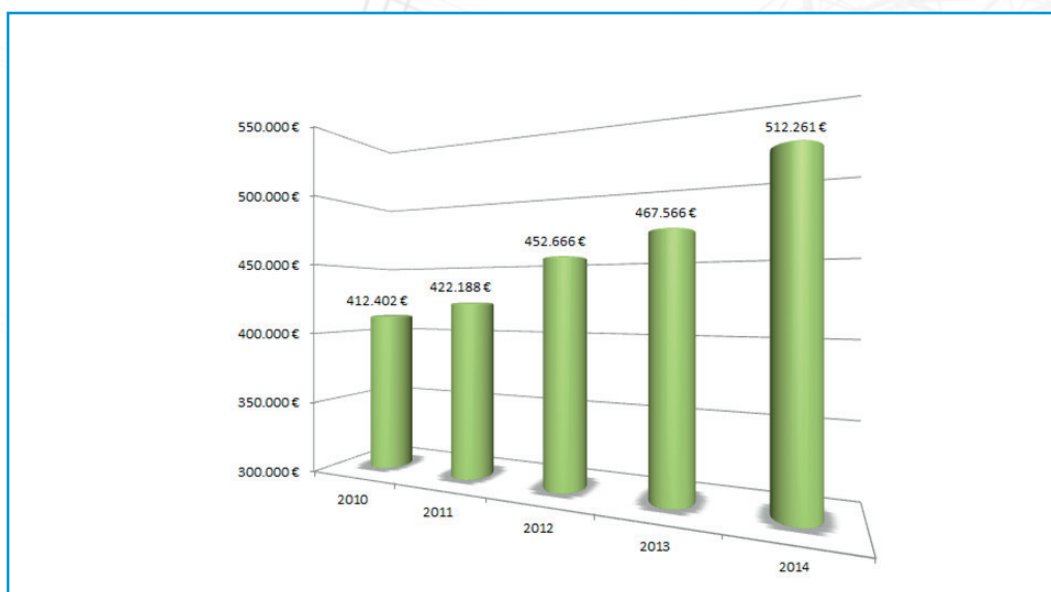
The Board of Directors has direct communication with the Company Secretary and via the Executive Director with the management. The Cabinet of Executive Director performs professional and administrative activities for the purposes of the Company's bodies and organizational units of the Company. Managing of the company is divided in five organizational units managed by directors, and the Executive Director manages a common work with the support of three assistants.

## Human Resources

Facing the challenges of the implementation of a very intensive investment cycle, the efforts to gain the position of an optimized, but fully independent transmission system operator, the Company endeavors to pay special attention to the improvement of human resources.

According to the audit report as at 31 December 2014, a total number of employees in CGES was 325. Out of the total number of employees, 296 employees have permanent employment contracts, 28 have fixed-term employment contracts, and there is one trainee employed with the Company. An average age of the employees in CGES is 45.3 years of age.

For the second consecutive year, we supported the Montenegrin Government's Vocational Training Program for the Young People with Acquired Higher Education. At the end of the Vocational Training out of 6 persons with university degrees hired under this program during 2014, due to increased workload and demanding investment projects, 4 persons entered into fixed - term contracts.



**Figure 5** –Value of assets per employee [€] in the period between 2010 and 2014

Taking into account the significance of energy sector for a total employment rate in the country, on the one hand, and the necessity of optimization of all costs of the core activity, including salary costs, on the other, the Company is improving from year to year one of the main efficiency parameters, i.e. the value of assets per employee in the Company. Therefore, the intention is to achieve an optimal compromise between contributions to the national standard through controlled hiring of new employees and optimization of regulated costs.

# Financial Statement

## Profit and Loss Statement

The financial statements for year 2014 show a profit of 12,1 Mln €.

**Revenues** amount to 38,8 Mln €, mainly related to transmission network usage (21,6 Mln €), capacity allocation (7,0 Mln €) and transmission losses (6,4 Mln €).

**Operating expenses** reached 17,8 Mln €, mainly due to personnel costs (6,3 Mln €) and transmission losses (4,6 Mln €).

**Resulting EBITDA** (earnings before interest, taxes and depreciation) is equal to 21,0 Mln € and the margin reaches 54%.

P&L	EoY 2014	EoY 2013	EoY 2014 vs EoY 2013
€ mil			
Transmission revenues	21.6	16.8	4.7
Transmission losses	6.4	5.6	0.8
Congestion revenues	7.0	3.7	3.3
Ancillary system balancing revenues	1.9	0.2	1.7
Other revenues	2.0	1.2	0.8
<b>Total Revenues</b>	<b>38.8</b>	<b>27.5</b>	<b>11.3</b>
Personnel	6.3	6.3	(0.1)
Material	0.3	0.3	(0.0)
Third party	1.3	1.5	(0.2)
Ancillary system balancing costs	2.6	0.5	2.2
Other	2.7	4.3	(1.6)
Transmission losses	4.6	5.2	(0.6)
<b>Opex total</b>	<b>17.8</b>	<b>18.1</b>	<b>(0.3)</b>
<b>EBITDA</b>	<b>21.0</b>	<b>9.4</b>	<b>11.6</b>
Margin	54%	34%	20%
D&A	6.7	6.7	0.0
<b>EBIT</b>	<b>14.3</b>	<b>2.7</b>	<b>11.6</b>
Margin	37%	10%	27%
<b>Net Financial expenses</b>	<b>0.9</b>	<b>(0.2)</b>	<b>1.1</b>
Financial revenues	0.1	0.8	(0.7)
Financial expenses	1.0	0.6	0.5
<b>EBT</b>	<b>13.4</b>	<b>3.0</b>	<b>10.4</b>
Taxes	1.2	0.3	0.9
<b>Net income</b>	<b>12.1</b>	<b>2.6</b>	<b>9.5</b>

Transmission usage network revenues:

- ◆ **Revenues from distribution:** Lower than 2013 (-2,1 Mln €) due to lower network use (-0,8 Mln €, -5%) and lower tariff (-1,3 Mln €, -4%).
- ◆ **Revenues from producers** (+6,9 Mln €) vs. previous year, 2013 actual data did not include the revenues from producers (becoming compulsory starting from January 2014).



**Transmission losses\*:**

Higher than 2013 (+0,8 Mln €) mainly due to higher ITC revenues (+1,1 mln €).

**Congestion revenues:** Higher than previous year: (+3,3 Mln €) mainly due to higher congestion and related applied prices on Albanian border.

**Other revenues:** (+2,5 Mln €) mainly due to:

- ◆ Revenues derived from services for tertiary regulation (+1,1 Mln €)\*\*;
- ◆ Extraordinary Revenues+ previous years (+0,7 Mln €);
- ◆ Revenues from reactive energy (+0,4 Mln €)\*\*.

**Operating expenses** -0,3 mln € mainly due to differences in the following items:

**Services and other costs (including Ancillary services):** +0,4 mln € mainly due to higher ancillary services (+2,1 Mln €), compensated by impairment of receivables from domestic customers performed in year 2013 (KAP) (-1,9 Mln €).

**Transmission losses:** (-0,6 Mln €) mainly due to lower both, domestic and transit losses.

**Personnel cost:** in line with the previous year.

Headcount as end of year 2014 is 325 FTE (-5 FTE vs. 2013).

**Depreciation and amortization:** Actual depreciation in line previous year.

**Net financial expenses**

Actual Net financial expenses are higher than previous year mainly due to lower financial revenues and exchange rate effect due to World Bank loan

**Income taxes** are calculated as 9% of taxable profit plus fiscal adjustments (i.e. depreciation costs, provisions for severance packages and jubilees, etc.)

Actual vs. previous year (+0,9 Mln €) due to higher EBT.

*\*including ITC*

*\*\*Such revenues began to be calculated as of October 2013*

## Balance Sheet

### Net Financial Debt

Actual vs. end of 2013: + 13,8 mln € mainly due to the withdrawals of EBRD loan for Lastva-Pljevlja project and lower end of year cash position (-4,9 mln €).

Balance sheet			
	EoY 2014	EoY 2013	EoY 2014 vs EoY 2013
<i>€ mil</i>			
Assets	166.5	153.8	12.7
Working Capital	12.9	6.7	6.2
Funds	2.1	2.1	(0.0)
<b>Net invest Capital</b>	<b>177.3</b>	<b>158.4</b>	<b>18.9</b>
Shareholders Equity	172.7	167.6	5.1
Paid in capital	155.1	155.1	-
Capital injection	-	-	-
Reserve	(0.0)	(0.0)	-
Carried forward result	17.6	12.5	5.1
Net income from previous period	12.0	9.9	2.1
Current net income	12.1	2.6	9.5
Dividends	(6.6)	-	(6.6)
Net Debt	4.6	(9.2)	13.8
Cash	32.8	37.7	(4.9)
Long term debt	37.4	28.5	8.9
Lastva - Pljevlja Project	17.2	6.8	10.5
Other debt	20.2	21.7	(1.5)
<b>Total liabilities</b>	<b>177.3</b>	<b>158.4</b>	<b>18.9</b>

## Cash Flow

CASH FLOW		
	EoY 2014	EoY 2013
<i>€ mil</i>		
<b>Initial balance</b>	<b>166.5</b>	<b>153.8</b>
EBIT	12.9	6.7
Taxes	2.1	2.1
Depreciation	177.3	158.4
Delta WC	172.7	167.6
Delta funds	155.1	155.1
Delta capex	-	-
<b>Total Operational</b>	<b>(0.0)</b>	<b>(0.0)</b>
Financial expenses	17.6	12.5
Variation of Lastva-Pljevlja Project debt	12.0	9.9
Other debt increase/amortization	12.1	2.6
<b>Total Financial</b>	<b>(6.6)</b>	<b>-</b>
Capital injection/reduction	4.6	(9.2)
Dividends	32.8	37.7
<b>Remittances/injection</b>	<b>37.4</b>	<b>28.5</b>
<b>Total</b>	<b>20.2</b>	<b>21.7</b>
<b>Final Balance</b>	<b>177.3</b>	<b>158.4</b>

## Membership on the Stock Exchange and Shares of CGES

From 7 May 2012 CGES shares are quoted on the A list of the Montenegro Stock Exchange, which is a confirmation of the quality of the securities and, indirectly, a number of preconditions that the company meets in terms of corporate culture.

The curve below shows the trend of the company's shares, which shows an increase from € 0.470 per share at the beginning of the year to € 0.695 per share as of 31 December 2014.



**Chart 16** – Trend of CGES shares movement in 2014



## Auditor's Report



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**TRANSLATION**

TO THE SHAREHOLDERS OF

**CRNOGORSKI ELEKTROPRENOSNI SISTEM AD,  
PODGORICA**

**Independent Auditor's Report**

We have audited the accompanying financial statements of Crnogorski elektroprenosni sistem AD Podgorica ("the Company"), which comprise the statement of financial position as at 31 December 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the applicable Law on Accounting and Audit of Montenegro and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Hipotekarna banka a.d. Podgorica, račun 520-1370100-53  
Erste Bank a.d. Podgorica, račun 540-1000032318221-33  
PIB 02526837 PDV 30/31-05509-0



## TRANSLATION

### *Opinion*

In our opinion the financial statements present truly and objectively, the financial position of the Company as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with applicable Law on Accounting and Audit of Montenegro.

### *Emphasis of Matters*

Without qualifying our opinion, we draw attention to Note 21 to the financial statements to the following matters:

With reference to receivables from Elektroprivreda Crne Gore Ad Nikšić (EPCG) invoices for the use of transmission network in the period between 1 January and 14 June 2013 in the amount of EUR 8,883,918 are issued by the Company, with regards to the use of transmission network in the period noted above, the receivables are a direct consequence of the application of Methodology for setting regulatory allowed revenue and prices for use of electricity transmission system (Official Gazette of Montenegro no. 2/12, 12/12, 61/13) and Decision on approval of regulatory allowed revenue and prices for use of electricity transmission system to the Company for the period between 1 August 2012 and 31 July 2015 (12/695-53 dated 2 July 2012), which are in accordance with the Energy Law adopted by the Assembly of Montenegro and are not subject to negotiations between energy undertakings. Settlement of the above mentioned receivables from EPCG is included in the Agreement on regulation of mutual obligations between the Government of Montenegro, EPCG and the Company (furthermore Agreement) adopted by the Boards of Directors of EPCG and the Company and submitted to the Government of Montenegro for the approval. According to the Agreement these claims will be settled by EPCG in the period of 60 days after signing the Agreement.

The Company did not record any liability towards EPCG in relation to the system reserve employment for charges claimed by EPCG to the Company between 1 January 2013 and 1 October 2013 in the amount of EUR 8,133,148 as there is no legal or contractual basis for these charges. In accordance with the Agreement, the amount of EUR 8,133,148 will be paid directly to the bank account of EPCG, by the Government of Montenegro in the period not longer than three years after the signing the Agreement.

In accordance with the Decision of Regulatory Agency for Energy (RAE) related to approving the fees and charges paid by electricity producers connected to the transmission system for the use of transmission capacity No. 14/358-17 dated 8 August 2014 the Company invoiced to EPCG for usage of transmission capacity during 2014 in the amount of EUR 8,161,412. EPCG did not accept to sign the Treaty on the Transmission network for electricity producers and did not to pay related invoices, and for the same matter proceedings are in progress before the Commercial Court.



### TRANSLATION

The Agency informed the Company in Memo No. 15 / 02-6 dated 27 March 2015, although Decision was made in accordance with the Energy Law, if the Constitutional Court reach decision that provisions of Methodology for above Decision are illegitimate, the Agency would compensate mentioned amount through its mechanism of correction.

Podgorica, 21 April 2015

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović  
Certified Auditor

*This is a translation of the original Independent Auditors' Report issued in the Montenegrin language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Montenegrin version of the document shall prevail.*

Podgorica, 21 April 2015



KPMG d.o.o. Podgorica

Branko Vojnović  
Certified Auditor