CRNOGORSKI ELEKTROPRENOSNI SISTEM

OPERATING STATEMENT

OF CRNOGORSKI ELEKTROPRENOSNI SISTEM AD FOR THE YEAR 2017

Podgorica, April 2018

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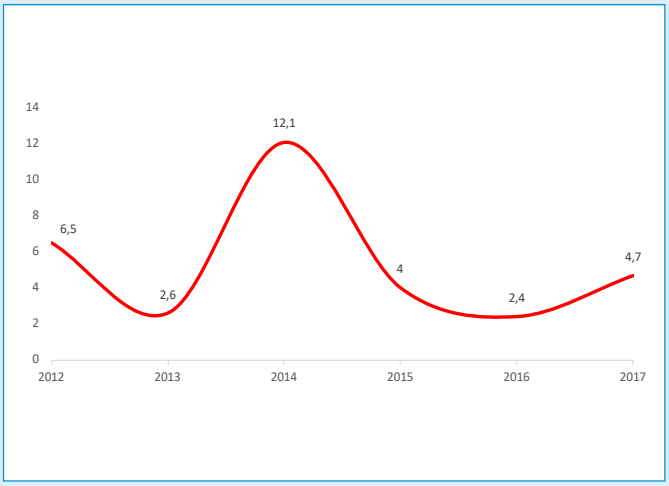
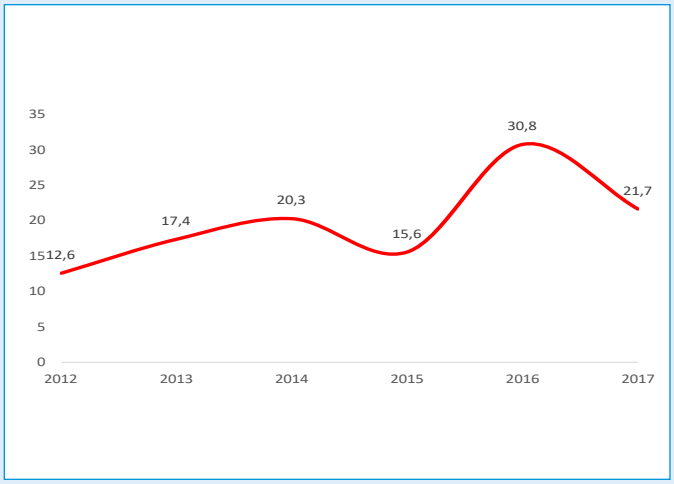
2017 KEY INDICATORS

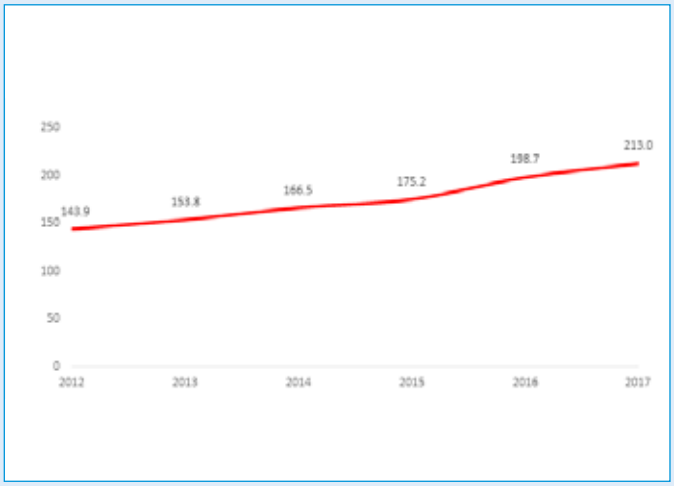
Corporate data



Despite a complex business environment, eighth 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 €4.7 million.



During 2017, we achieved project implementation in the amount of €21.7 mln.



CGES continued in 2017 to develop the system following the permanent consumer demands for quality of electricity, as reflected in the achieved value of CGES assets of €213.0 mln.

Background

Crnogorski elektroprenosni sistem a.d. (CGES) is registered as a stock company with the Central Registry of Business Entities on 27 March 2009, 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, divided into 146.176.876 shares with the nominal value of €1,0611.

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 operation, maintenance and development of the transmission system in the territory of Montenegro and its connection with other systems. In addition, it is responsible also for ensuring a long-term capability of the system to meet requirements for electricity transmission in an economically justified manner, all with the aim of ensuring a stable operation of the electric power system and reliable electricity transmission from generation facilities to large consumers and distribution network.

Beside the core activity, 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 110/35 kV" Nikšić", which was put into operation on 1 July 1957, connecting through the 110kV overhead line cities of Nikšić (Montenegro) and Bileća (Bosnia and Herzegovina). 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. This 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, two units existed within this company, 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 the name "Elektrocrnagora" – Titograd.

During the integration processes at the end of the 1970s 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 – Elektroprivreda Crne Gore AD - Nikšić in 1998.

Joint-Stock Company Prenos Podgorica was founded by the Decision on restructuring through separation with foundation of a new company, adopted by the Shareholders' Assembly of Elektroprivreda Crne Gore ad Nikšić on 23 March 2009, which was a direct consequence of the adoption of relevant recommendations and regulations of European Union on deregulation of the power sector. At the first ordinary Shareholders' Assembly held on 25 June 2010, a decision was adopted to change the name of the Company, 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 Electricity Transmission System

The electricity transmission system in Montenegro, pursuant to the Energy Law, consists of plants and transmission lines at 110 kV, 220 kV, 400 kV voltage level, as well as transformers of transmission ratio110/x kV. The transmission line network of electricity transmission system consists of:

- 32 overhead lines 110 kV with a total length of 602,6 km, two underground cable lines with a total length of 7,6 km
- 4 overhead lines with a total length of 92,5 km operating at 35 kV
- 8 overhead lines 220 kV with a total length of 337,4 km, and
- 5 overhead lines 400 kV with a total length of 283,3 km.

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

- with the electric power system of Serbia via two 220 kV OHL (Pljevlja 2 – Bajina Bašta and Pljevlja 2 – Požega), and with 110 kV OHL Pljevlja 1 – Potpeć,
- with the electric power system of Kosovo, via one 400 kV OHL Ribarevine – Peć,
- with the electric power system of Bosnia and Herzegovina via 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 the electric power system of Albania via 400 kV OHL Podgorica 2 – Tirana and 220 kV OHL Podgorica 1 – Koplik.

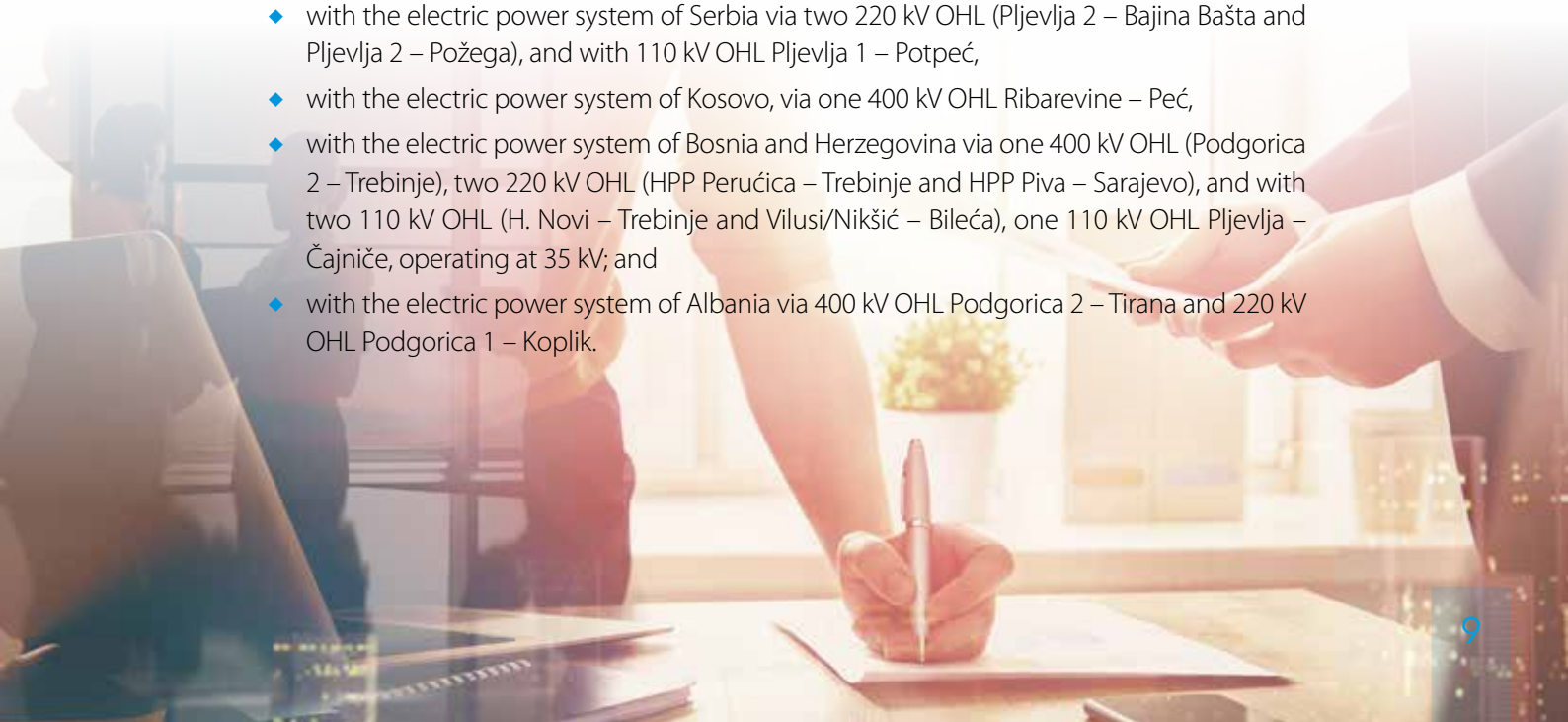
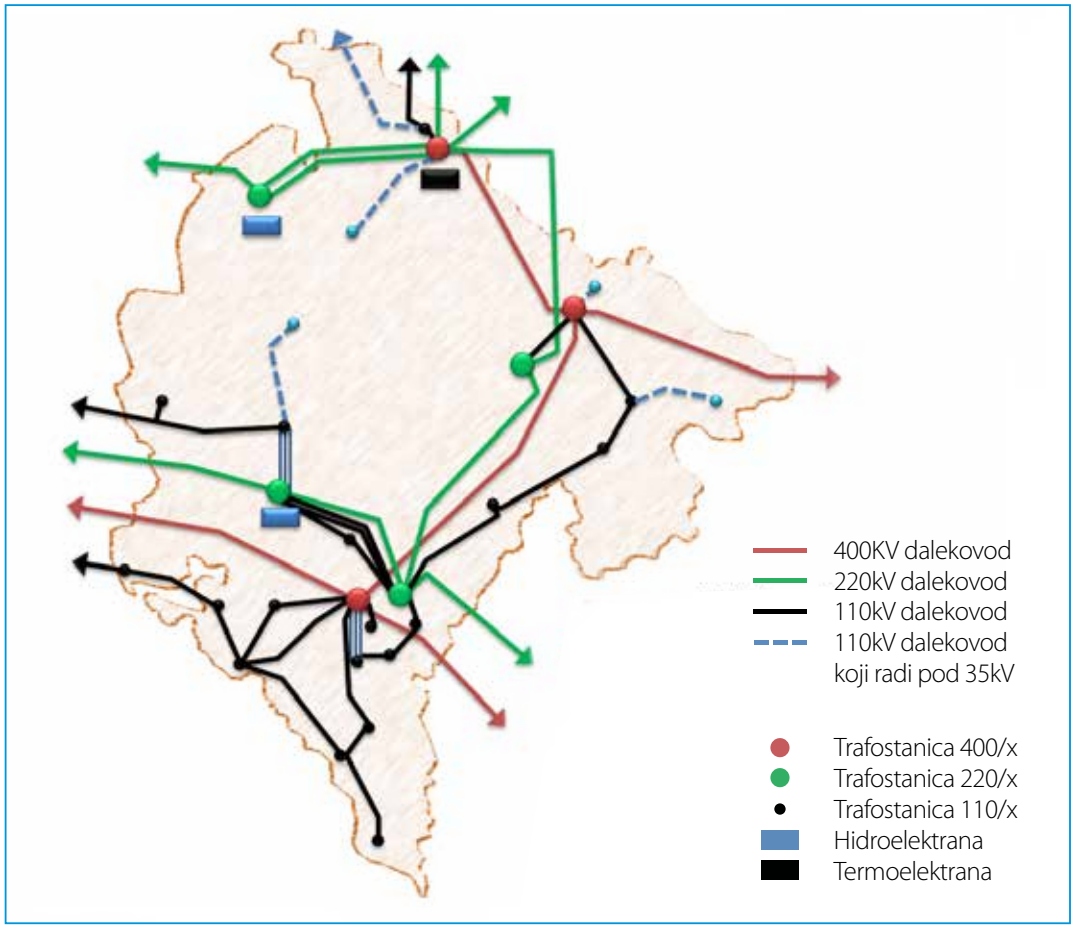


Table 1: Electric power lines

		Electric power lines	in Montenegro (km)	Total length (km)
400 kV overhead lines	1	Podgorica2 – Trebinje	61,4	89,4
	2	Podgorica2-Ribarevine	84,7	84,7
	3	Ribarevine-Peć 3	53,1	79,9
	4	Ribarevine - Pljevlja2	54,8	54,8
	5	Podgorica - Albanija	29,3	156
		TOTAL	283,3	464,8
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	HercegNovi- 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 – ETP Trebješica	36,1	36,1
	22	EVP Trebešica -Andrijevica	30,8	30,8
	23	Andrijevica- Berane	18,6	18,6
	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	T-otcjep - Vilusi	0,5	0,5
	29	Kličevo - Brezna	31,4	31,4
	30	Tivat - Kotor	5,9	5,9
		TOTAL	548,3	567,4
100 kV cables	1	Podgorica 3 - Podgorica 5	3,6	3,6
	2	Kličevo - Nikšić	4	4
		TOTAL	7,6	7,6
double 110KV OHLs	1	Perućica – Podgorica line II and III	32,6	32,6
	2	Perućica – Nikšić line I and II	12,8	12,8
		TOTAL	45,4	45,4
110kV OHLs under 35 kV voltage	1	Pljevlja 1 - Čajniče	20,8	25,8
	2	Pljevlja 1 - Žabljak	38,5	38,5
	3	Berane - Rožaje	24,1	24,1
	4	Ribarevine - Nedakusi	8,6	8,6
		TOTAL	92	97
		TOTAL AT ALL VOLTAGE LEVELS	1314	1623,2



Graph 1: Electricity transmission system of Montenegro as of 31 December 2017

Supply of consumers is performed from 23 substations 110/35 kV that together with two system SS 400/x (Podgorica 2 and Pljevlja 2) with overhead lines make the transmission network of Montenegro.

No	SUBSTATION	number of transformers	capacity (MVA) with number of transformers	∑ MVA
1	SS 400/220/110kV „Pljevlja 2“	3	925(2x400+125)	925
2	SS 400/110kV „Podgorica2“	2	600 (300+300)	600
3	SS 220/110/35kV „Podgorica 1“	4	426 (2x150+2x63)	426
4	SS 400/110/35kV „Bijelo Polje“	3	150+40 (2x20)	190
5	SS 220/110/35kV „Mojkovac“	3	190 (150+2x20)	190
6	SS 110/35kV „Niksić“	4	229 (40+63+2x63)	229
7	SS 110/35kV „Herceg Novi“	2	80 (2x40)	80
8	SS 110/35KV „Tivat“	2	83(20+63)	83
9	SS 110/35kV „Budva“	2	103 (40+63)	103
10	SS 110/35kV „Bar“	2	80 (40+40)	80
11	SS 110/35kV „Ulcinj“	2	51.5 (20+31.5)	51,5
12	SS 110/35kV „Cetinje	2	51.5 (20+31.5)	51,5
13	SS 110/35kV „Danilovgrad	1	20	20
14	SS 110/10kV „Podgorica3	2	71,5 (40+31,5)	71,5
15	SS 110/10kV „Podgorica4	2	80 (2x40)	80
16	SS 110/35KV „Berane	2	40 (2x20)	40
17	SS 110/35kV „Pljevlja1	2	60 (20+40)	60
18	SS 110/35kV „Vilusi	1	10	10
19	SS 110/35kV „Andrijevica	2	10+20	30
20	SS 110/35kV „Virpazar	2	40 (20+20)	40
21	SS 110/10kV „Podgorica V	2	63 (31.5+31.5)	63
22	SS 110/10kV „Kličevo	2	63 (31,5+31,5)	63
23	SS 110/35kV „Kotor	2	40 (20+20)	40
TOTAL:		51		3526,5

Table2: Substations owned by CGES

Transmission System Users

Three big power plants – HPP "Perućica" (installed capacity 310 MW), HPP "Piva" (347 MW) and TPP "Pljevlja" (210 MW), as well as three direct consumers – Aluminium Plant Podgorica (KAP), Steel Works Nikšić and Railway Infrastructure of Montenegro are connected to the electricity transmission network owned by CGES, while around 360.000 registered distribution consumers are indirectly supplied with electricity through the distribution network.

In addition to producers and suppliers of electricity, which have a license for performing electric power activities within Montenegro, the transmission network is used by about twenty regional electricity traders in order to be granted an access to cross-border transmission capacity.

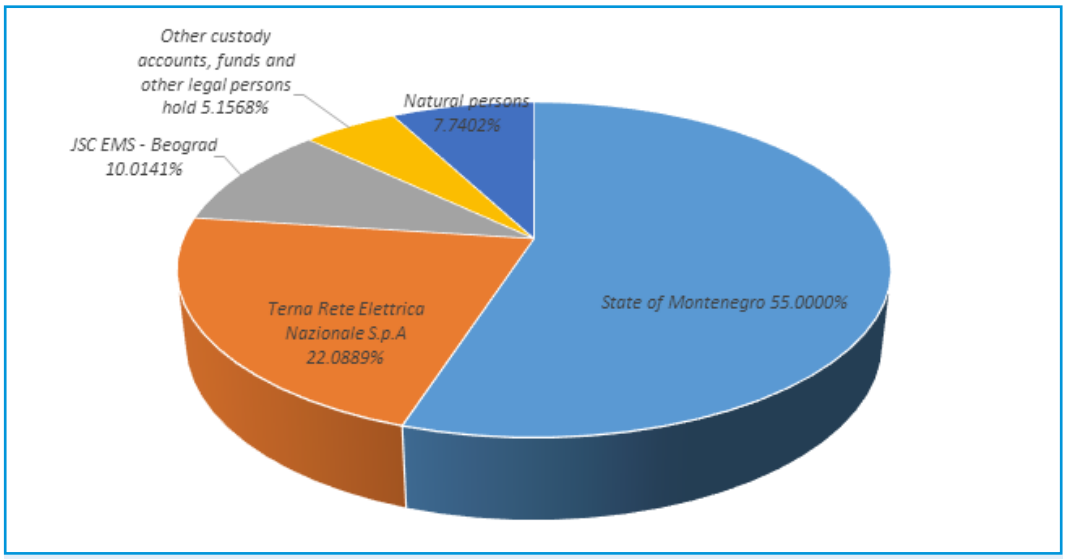
Ownership Structure

The share capital of CGES amounts to €155.108.283,12, divided into 146.176.876 shares with the nominal value of €1,0611.

The total number of shareholders, according to data from the Central Depositary Agency as of 31 December 2017, is 7.360.

The ownership structure of CGES as of 31 December 2017 was the following:

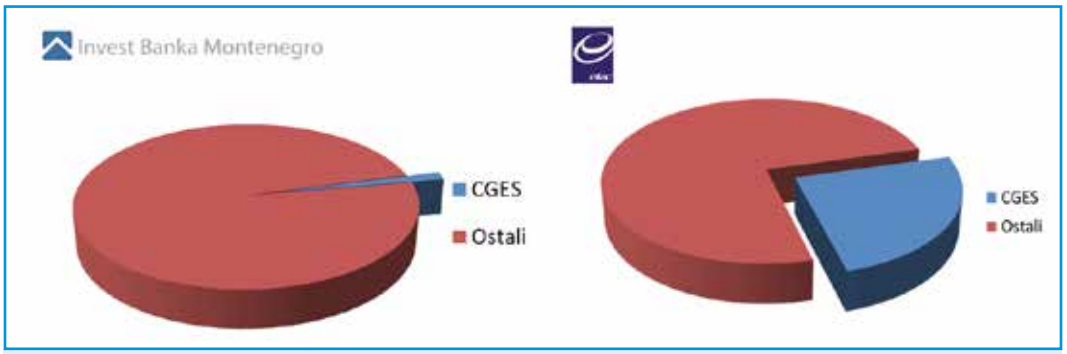
The State of Montenegro holds 55,00 % of the Company's shares, Terna Rete Nazionale S.p.A. 22.0889%, JSC Elektromreža Srbije (EMS) - Beograd 10,0141%, whose shares in the excerpt from the register of the Central Depositary Agency are recorded to NM – cumulative custody account 7. Other custody accounts, funds and other legal persons hold 5,1568% of shares, while natural persons hold 7,7402% of shares.



Graph 1: Ownership Structure of CGES as of 31 December 2017

Interest of CGES in Equity of Other Companies

As of 31 December 2017, CGES was the owner of 4140 shares of Invest Bank Montenegro AD Podgorica. The nominal value of shares was €51.1292, which makes the ownership interest of 1,5290% in the capital of Invest Bank Montenegro AD Podgorica.

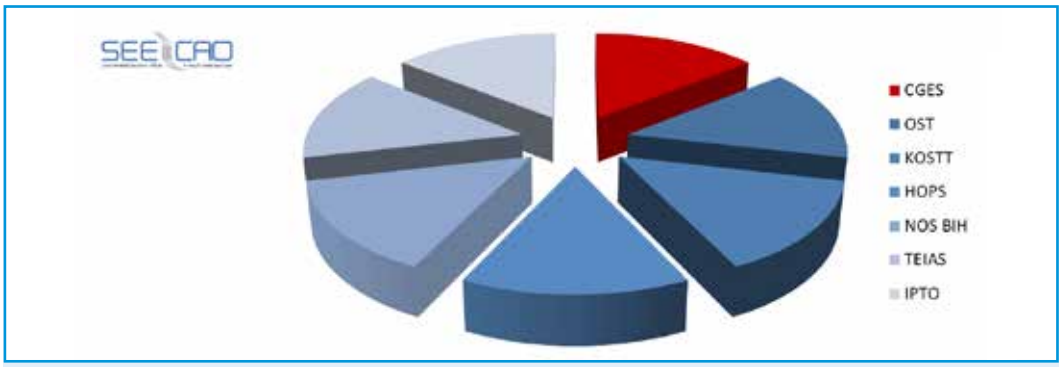


Graph 2: Ownership interest of CGES in Invest Banka Montenegro

Graph 3: Ownership interest of CGES in EKC

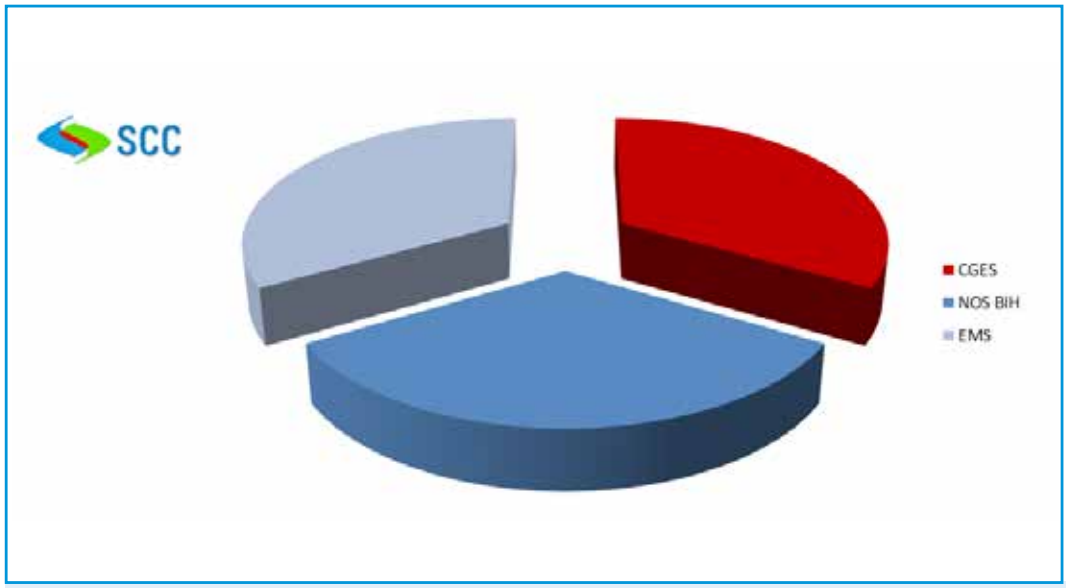
As one of the four founders of Elektroenergetski koordinacioni centar from Belgrade (EKC), CGES owns an ownership interest amounting to €49.548,31, which makes 25,00% of the capital of EKC. EKC was founded in 1993 with the aim of coordinating operation of electric power systems of Montenegro, Serbia and Macedonia, and eventually it 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.

Coordinated Auction Office in South East Europe d.o.o. Podgorica (hereinafter referred to as: SEE CAO) was founded at the initiative of the transmission system operators from the SEE. The task of SEE CAO is the implementation of the Regulation (EC) no. 714/2009 of the European Parliament and Council of 13 July 2009 on the rules for access to network for cross-border exchanges in electricity, and Regulation (EC) no. 1228/2003, or to act as a central point for organising auctions for cross-border capacity allocation at borders between Member founders. The founders of SEE CAO are 8 regional transmission operators (including CGES), for which SEE CAO conducts annual, monthly and daily explicit coordinated auctions on 6 borders (including borders Montenegro – Albania and Montenegro – Bosnia and Herzegovina).



Graph 4: Ownership interest of CGES in SEE CAO

In 2015, by complying with the decisions of competent authorities of ENTSO-E 2015, and in cooperation with Serbian and Bosnian transmission system operators – EMS and NOS BiH, CGES founded a regional security coordination centre – SCC d.o.o. (Security Coordination Centre) with its seat in Belgrade. Founders of the centre are equal owners, with initial capital of €34.765,00 by each co-owner.



Graph 5: Ownership interest of CGES in SCC

The aim of establishing the Company is to enable more reliable and safer operation of the transmission system in the region of South East Europe and to contribute to the development of the electricity market in the region and its integration into the pan-European electricity market by providing services to interested transmission system operators in the South East Europe region.

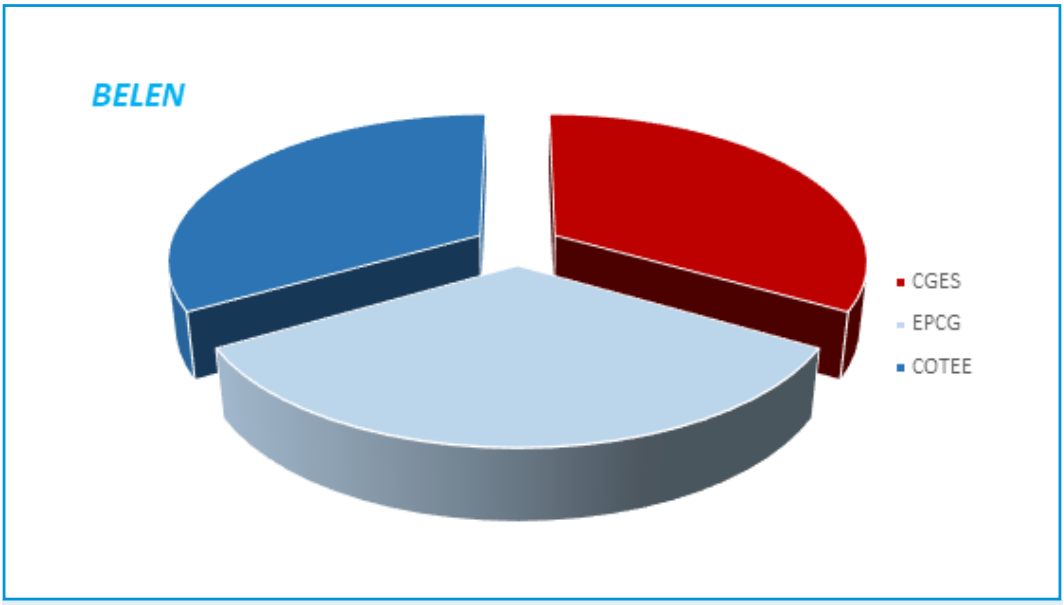
The Security Coordination Centre, by using the available software packages, and in accordance with individual contracts, provides the following services to the transmission system operators:

- Validation of the individual DACF and IDCF models delivered by system operators and checking the balances of individual system operators in an integrated model;
- Connecting individual DACF and IDCF models to a common (European) network model (for each hour in the day - 24 models),
- Safety calculations on connected models (for each hour);
- Short and Medium Term Adequacy (SMTA);
- Outage Planning Coordination (OPC);
- D-1 Net Transfer Capacity (NTC) (day ahead capacity calculation).

In addition to the aforementioned services, SCC has worked on models and security analyses for the needs of regional overhaul coordination in South East Europe, coordinated by CGES in 2017.

In order to ensure a necessary legal, organisational, operational and technical framework for the formation and operation of power exchange, electricity trade and mediation in

electricity trade, CGES founded with Elektroprivreda Crne Gore AD – Nikšić and DOO Crnogorski operator tržišta električne energije – Podgorica (Montenegrin Electricity Market Operator) the Company Berza električne energije DOO (BELEN) (Montenegrin Power Exchange), in which it has an equal share with other founders amounting to €49.995,00, and which constitutes an interest of 33,33% in the total share capital. The foundation of BELEN was registered within the Central Registry of Business Entities on 07 August 2017.



Graph 7: Ownership interest of CGES in BELEN

Membership in ENTSO-E

Part of the transmission network of ENTSO-E interconnection

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 control, coordinated operation and appropriate technical development of the European electricity transmission system. In accordance with the legal obligation arising from full transposition of the EU regulations in the energy sector into the Montenegrin legislation, CGES has been exercising an active role in international cooperation within the ENTSO.

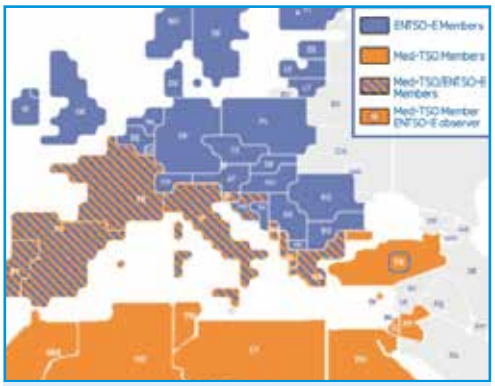
As one of the founders of the ENTSO-E organisation, which today counts 43 members from 36 European countries, CGES seeks to implement the declared goals of the organization on the territory of Montenegro, while at the level of association it is involved in making and applying common instruments for the operation of the European interconnection, in order to ensure coordination in normal and emergency conditions.

Control Block SMM

CGES administrates and manages the ENTSO-E control area of Montenegro. The control area of Montenegro is part of the 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 Med TSO

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 21 member from 19 MED countries, endeavours to contribute to implementation of declared objectives, making of decisions and work of this association.



Membership in Med TSO

HIGHLIGHTS IN 2017

FEBRUARY

CGES PARTICIPATED IN THE FIRST MONTENEGRIN TELETHON – SUPPORT, WIN

CGES gave full support to the first Montenegrin Telethon under the moto "Support, win". It is a known fact that CGES, as a socially responsible company, implements activities in this segment of operation in all areas of life, especially in the part composed of the most sensitive members of our society – children. Moreover, so far our company has provided help to little, big fighters through various types of donations, which makes us particularly proud.

CONTINUATION OF COOPERATION BETWEEN CGES AND THE FACULTY OF ELECTRICAL ENGINEERING (ETF)

Based on the Memorandum of cooperation signed last year between the representatives of CGES and the ETF in Podgorica, CGES assigned to ETF for use the functional microprocessor relay, for free.

ETF will use the subject relay for the enhancement of laboratory equipment and education at the course "Electric power systems".

MARCH

WPP KRNOVO *(13. MARCH)*

An agreement on temporary connection of Wind Power Plant (WPP) "Krnovo" to the transmission system for the needs of functional testing was signed, which represents a first connection of a new generation facility since 1982.

CGES TRADITIONALLY CONTRIBUTED TO THE EARTH HOUR

Also this 25 March, CGES joined the biggest volunteer campaign "Earth Hour", promoted in Montenegro by the NGO "Green Home". Through a symbolic turning off of lights on their facilities, as well as by metering savings in real time, CGES gave its modest contribution to the preservation of the planet.

APRIL

DRAGAN LAKETIĆ RECEIVES AWARD OF ASSOCIATION OF MANAGERS FOR 2016 .

The most successful manager in 2016, according to the evaluation of the Association of Montenegrin Managers, is Dragan Laketić, Chairman of CGES Board of Directors, who received the award on 27 April 2017, at the at the ceremony held in "Hilton" Hotel.

The prize award ceremony was attended by 250 guests, among which were the most successful managers in Montenegro, representatives of the State, diplomatic corps, local authority, economy, science, culture, business organisations, members and friends of the Association of Montenegrin Managers, as well as a big number of media representatives.

REHABILITATION OF SS 110/35 KV NIKŠIĆ

In early April, the rehabilitation, i.e. the repair of concrete gantries of SS 110/35 kV Nikšić, was entirely completed, when the use permit was obtained also.

A long operation period imposed the need to rehabilitate our oldest substation, which was a very complex and demanding investment.

The existing gantries were replaced by steel-lattice ones, and at the same time the lightning rod protection of the substation was executed.

By replacing concrete gantries, as well as high-voltage equipment, a reliable operation of the substation is completely ensured, and the consumption of Nikšić obtained a safer and more quality electricity supply.

MAY

CGES BIG SPONSOR OF 5TH CIGRE CONFERENCE

The 5th Conference of the Montenegrin Committee of CIGRE (International Council of Large Electric Systems), whose big sponsor was CGES, was organised in Bečići, which is aimed at representing the latest technical knowledge and experiences from the field of production, transmission and consumption of electricity, telecommunication equipment and information systems, through working sessions of 15 study committees.

More than 200 scientific and expert workers and businessmen, from both Montenegro and neighbouring countries, attended the Conference, who gave their full contribution through 97 papers, among which was also a big number of our experts with papers that drew the attention of participants. .

COLLECTIVE AGREEMENT SIGNED

After constructive negotiations and harmonisation of positions, with maximum understanding from both the management and the Union Organisation, the Collective Agreement was signed in CGES on 26 May current year, which ensures the rights and obligations of both the Company and employees.

The act was signed by Ivan Bulatović, the Executive Director of CGES, and Ilija Boljević, the President of CGES Union Organisation.

The Collective Agreement, as a signed agreement between the Union and management, represents a good basis for further development of cooperatione.

JUNE

EUROPEAN COMMISSIONER FOR EUROPEAN NEIGHBOURHOOD POLICY AND ENLARGEMENT NEGOTIATIONS JOHANNES HAHN VISITED SUBSTATION "LASTVA"

European Commissioner for European Neighbourhood Policy and Enlargement Negotiations Johannes Hahn, together with the Minister of Economy Dragica Sekulić, the Minister of European Affairs Aleksandar Andrija Pejović, the Chairman of CGES Board of Directors Dragan Laketić and the Director for Southeast Europe and Turkey within the KfW Development Bank Christoph Tiskens visited on 9 June the location of substation "Lastva" in Lastva Grbaljska.

"This is one of the crucial projects in the Connectivity Agenda that will help to connect, in terms of electricity, Romania, Serbia, Montenegro, Bosnia and Herzegovina, and Italy. This project and everything what was done indicates the determination of European and Montenegrin institutions and shows that all assumed obligations can be fulfilled", Commissioner Hahn said on that occasion.

This project is important not only for regional connection and the corridor, but also for energy security and development of tourism through providing continuous electricity supply.

POWER EXCHANGE FOUNDED IN MONTENEGRO

The Executive Director and the Chairman of the Board of Directors of CGES Ivan Bulatović and Dragan Laketić, the Executive Director of Elektroprivreda Crne Gore (EPCG) Tonino Maglio and the Executive Director of Crnogorski operator tržišta električne energije (COTEE) (Montenegrin Electricity Market Operator) Milan Radović signed today the Articles of Incorporation and Articles of Association of the Power Exchange LLC.

The establishment of the Power Exchange has created essential conditions for better and more competitive electricity market in Montenegro.

This means that Montenegro, besides the fact that it will become an energy node in terms of infrastructure after the construction of the undersea cable, will ensure electricity trading in Montenegro under more transparent and efficient conditions by creating its own power exchange.

CGES CERTIFICATION

Pursuant to the provisions of the Energy Law, a procedure for issuing the certificate for electricity transmission system operator to Crnogorski elektroprenosni sistem AD was initiated.

THE EIGHT ORDINARY SHAREHOLDERS' ASSEMBLY OF CGES WAS HELD

On 29 June in Podgorica, it was held the eight ordinary Shareholders' Assembly of CGES Podgorica, in which the shareholders unanimously adopted the Operating Statement of CGES for last year, as well as financial statements with the independent auditor's report.

Afterwards during the Assembly, the shareholders released, and then selected new

members of the Board of Director which, on behalf of the Government, are composed of: Vesna Bracanović, Tamara Ivković, Zoran Miljanić and Zoran Rakočević. Representatives of Terna in the Board of Directors are Tiziano Ceccarani and Carlo Crea, while Jelena Matejić was selected on behalf of EMS.

On the same day in Podgorica, it was held a constitutive meeting of the Board of Directors of CGES, in a new convocation. Vesna Bracanović, BEcon, was selected as Chairwoman of the Board of Directors, while Tiziano Ceccarani, B.Sc.E.E, was selected as Vice Chairman of this authority.

JULY

COMPANY DAY

On 01 July 2017, CGES celebrated eight years of existence as a separate legal person. On that occasion, the newly elected Chairwoman of the Board of Directors Vesna Bracanović, by greeting the attendees, underlined that "the jubilee is related also to the fact that the first substation of transmission network in Montenegro was put into operation 60 years ago, with the aim of ensuring regular supply of one of the first holders of the Montenegrin economic development in that time - "Željezara Nikšić", and that this substation, together with the 110 kV overhead line towards Bileća, represents the beginning of development of electricity transmission in Montenegro in modern terms. "Both in these first days and today, our main task through performing a public interest activity has remained to ensure an accessible and reliable electricity supply of all Montenegrin citizens and economy. We do this through a good connection with our neighbours, through a responsible relationship and permanent work on development, maintenance and control of the transmission network in Montenegro".

CGES SIGNED SEPARATE AGREEMENT WITH KFW BANK

In accordance with the Financing Agreement signed between the State of Montenegro (Ministry of Economy), CGES and KfW of 06 July 2016, KfW and CGES signed the Separate Agreement.

The Separate Agreement defines project details, as well as goods and services that will be financed from the WBIF Grant awarded to Montenegro for the implementation of the project Trans-Balkan Electricity Corridor (I) – Grid Section in Montenegro– part 2.

BUSINESS FORUM HELD WITHIN THE SUMMIT OF WESTERN BALKANS COUNTRIES

Chairwoman of the Board of Directors Vesna Bracanović participated in the Business Forum organised within the Western Balkans Summit held on 12 July in Trieste. On that occasion, the participants of the Business Forum greeted the "Berlin Process" initiative, as well as the significance of active participation of Western Balkans countries and the possibility of achieving positive results in the process of connecting companies from the region with those from the EU.

In the framework of the Summit, the Permanent Secretariat of the Western Balkan Chamber Investment Forum was opened, which represents the further implementation of the "Berlin Process" for strengthening regional cooperation in Western Balkans.

OCTOBER

The Energy Regulatory Agency issued a temporary certificate to CGES as electricity transmission system operator.

NOVEMBER

CGES DONATED 20K € WORTH APPARATUS TO THE GENERAL HOSPITAL IN PLJEVLJA

CGES donated to the Public Institution General Hospital "Pljevlja" an electrical motor system for orthopaedics worth €20,000. Thanks to this donation, the General Hospital "Pljevlja" will improve its operative orthopaedic programme with implementation of the latest technical-technological achievements in the treatment of traumatological and other osseous-articular pathologies. Dr Kenan Hrapović, the Minister of Health of Montenegro, Vesna Bracanović, the Chairwoman of CGES Board of Directors and Mile Goločevac, the Director of the General Hospital "Pljevlja" spoke at the event on the occasion of this donation.

DECEMBER

DRAGAN KUJOVIĆ NEW EXECUTIVE DIRECTOR

In mid-December 2017, the V extraordinary Shareholders' Assembly of CGES was held today, in which the existing Board of Directors of this electric power company was removed, and a new one was appointed

Besides Vesna Bracanović, Zoran Rakočević, Tamara Ivković and Zoran Miljanić will represent the capital of the Government. The Shareholders' Assembly also elected members of the Board of Directors, Terna's representatives Giovanni Cerchiarini and Carlo Crea, while Jelena Matejić will represent Elektromreža Srbije in this convocation.

At the constitutive meeting of the Board of Directors of CGES, which was held on the same day, Vesna Bracanović was appointed as Chairwoman of the Board of Directors, while the Giovanni Cerchiarini was appointed as Vice-Chairman of the Board of Directors.

Dragan Kujović was appointed as the new Executive Director of CGES, which previously covered the function of State Secretary in the Ministry of Economy.

CGES SUPPORTED THE WORK OF NGO "ZDRAVA DONA MONTENEGRINA"

At the auction of art works of Montenegrin academic painters, organised in the "Ramada" hotel, CGES also participated, which was represented by the Chairwoman of Company's Board of Directors, Vesna Bracanović. By purchasing art works of 23 Montenegrin academic painters, the participants in the auction supported the further work of the NGO "ZDRAVA DONA MONTENEGRINA", society for fight against breast cancer.

Investments

In the 2017 CGES Investment Plan, activities on 44 investments (64 including subprojects) were envisaged, in the total amount of 40.251k €.

1. SS "LASTVA", OHL "LASTVA-ČEVO" AND "ČEVO-PLJEVLJA"

SS Lastva", 400 kV OHL„Lastva – Čevo" and 400 kV OHL„Čevo – Pljevlja" is a contractual obligation under the Project Coordination Agreement on the installation of HVDC submarine cable between Montenegro and Italy. It is important to note that the implementation of this project will significantly improve the safety and reliability of electricity supply of the Montenegrin coastline and the northern part of Montenegro.

The project includes construction of:

- SS 400/110/35 kV "Lastva", capacity 2x300 MVA in GIS design;
- "OHL 2x400 kV and 400 kV "Lastva – Čevo by "input-output" from SS „Lastva" to OHL „Podgorica – Trebinje" and section 400 kV OHL„Lastva – Pljevlja". OHL 400 kV from Lastva to Čevo is about 35 km long, with a parallel one single circuit (section of future OHL„Lastva – Podgorica") and one double circuit line (OHL section„Lastva – Trebinje" and„Lastva – Pljevlja").
- OHL 400 kV and 400 + 110 kV„Čevo – Pljevlja", length 115 km, that is implemented as double circuit line in length 40 km from Brezani to Kosanica, (from Brezna to Njegovuđe as 400 kV OHL and 110 kV line section„Brezna – Žabljak" and from Njegovuđe to Kosanica as 400 kV OHL and 110kV OHL section„Žabljak – Pljevlja"). Construction of this OHL will close 400 kV ring in the area of Montenegro, which will increase the reliability of the power system. Within this part of the project it has been also implemented the connection of OHL Brezna – Žabljak to SS Žabljak by constructing an overhead line and SS Brezna by laying an underground cable line.

In 2017, extensive activities were carried out in relation to the design of project documentation, execution of works and settlement of legal and property rights.

2. SCADA FOR DISPATCH CENTRE WITH EMS SYSTEM (INCLUDING ESTIMATE OF N-1 SECURITY CRITERION IN REAL TIME)

The aim of the project is enhancement of supervision and control capacities and performances of the existing National Dispatch Centre (NDC) by implementing the new SCADA/EMS system on the location of the main (NDC) and on the location of the reserved dispatching centre (RDC), and in this way, a supervision-control architecture shall be formed consisting of two parallel and independent dispatching centres in the main and back-up configuration, with two physically separated locations pursuant to ENTSO-E standards..

The project of implementing the new SCADA system consists of two subprojects:

- New SCADA system,
- Equipping facilities for remote supervision and control.

New SCADA sistem: New SCADA\EMS system will allow automatic generation control – AGC (regulation of active power and frequency, and system reserve supervision), voltage reactive control, performing security analysis in real time, prognostics necessary for planning of electric power system operation, system for controlling ancillary services, whereby CGES will fulfil conditions of modern practice in controlling EPS pursuant to ENTSO-E standards. .

In 2017, activities were completed in accordance with the plan, and the implementation of the next project phase commenced.

Equipping facilities for remote supervision and control: In the first implementation of project of new SCADA/EMS system, CGES shall perform preparation of all facilities for their connection with the new system. Preparation of facilities includes installation of new RTUs (remote terminal units) in 28 facilities, implementation of new system for communication with control centres.

In 2017, installation of RTUs in all CGES substations in accordance with the signed contract was completed. Inverters for the supply of local SCADA system in 16 substations were delivered.

3. CONSTRUCTION OF SS 110/10 KV KLIČEVO AND CONNECTION LINES 110 KV

In winter regimes of peak load, the distribution area of Nikšić does not have enough reserve in transformation for supply of the narrow city area, therefore it is necessary to construct a new substation.

The project of construction of a new SS includes constructing SS 110/10 kV Kličevo on the location of the existing SS 35/10 kV Kličevo in GIS concept and connecting it to the 110 kV network by constructing a cable line to the existing SS 110/35 kV Nikšić and connecting it to the existing 110 kV OHL Kličevo – Brezna.

In 2017, technical acceptance was carried out and use permits were obtained. The facilities were commissioned.

4. CONSTRUCTION OF SS 110/35/10 KV KOTOR (ŠKALJARI) AND 110 KV OHL TIVAT - KOTOR

Construction of 110/35/10 kV Kotor (Škaljari) and 110 kV OHL Tivat – Kotor is the project of connection of one of the most important tourist centres of Montenegro to the transmission network, whereby the problem of power supply of consumption of the Municipality of Kotor would be significantly alleviated.

Project implementation includes:

- construction of SS 110/35 kV Kotor (Škaljari) 2×20 MVA in GIS design,
- construction of OHL 110 kV Tivat – Kotor, 5.84 km,
- installation of a new transformer of 20 MVA in SS Kotor.

In 2017, planned works were completed, technical inspections was performed, and the facility received the use permit.

5. SS 110/10 KV PODGORICA 4, ENSURING BIDIRECTIONAL 110 KV SUPPLY

A large part of consumers of the Capital City is supplied with power from SS 110/10 kV Podgorica 4, and it is supplied from SS 400/1110 kV Podgorica 2, radially via a 100 kV overhead line. In order to meet the n-1 security criterion of power supply, it is necessary to additionally connect SS Podgorica 4 to the grid.

The project includes connecting substations 110/10 kV Podgorica 4 and 220/110/35 kV Podgorica 1, and the connection will be implemented as follows:

- Connection from SS Podgorica 1 to tower no. 12 – along the route of the former 110 kV OHL Podgorica 1-Budva;

- Connection from tower no. 12 to SS Podgorica 4 – by new 110 kV cable line;
- Equipping associated OHL bays in SS Podgorica 1 and Podgorica 4.

In 2017, the revision of the Main Design of 110 kV Podgorica – Podgorica 4 was completed. The Environmental Impact Assessment Study was approved by the Environmental Protection Agency.

6. REHABILITATION OF SS 110/35 KV NIKŠIĆ (REPAIR OF CONCRETE GANTRIES)

After carrying out preparations (development of technical documents and obtaining building documents), the entire works on the replacement of gantries were executed in 2017. The works included: the dismantling of the existing reinforced concrete gantries with the demolition of foundations, construction of new foundations, the erection of steel lattice structure of the gantries, the replacement of busbars and 110 kV cross-links, insulators, suspension and jointing equipment.

With this replacement, with the carried out replacement of high-voltage equipment, transformers, protection and control, a reliable operation of the substation and a safer supply of the Nikšić area with electricity was provided.

In 2017, all planned works on the repair of concrete gantries were completed.

7. DELIVERY AND INSTALLATION OF OPGW ON 110 KV OHL KLIČEVO – BREZNA AND TELECOMMUNICATION EQUIPMENT IN SS KLIČEVO AND SS BREZNA

For the purpose of connecting the future 110 kV substation Brezna and WPP to CGES telecommunication system, and thereby to control centres NDC/RDC, it is necessary to replace existing ground wire on the 110 kV overhead line Kličevo – Brezna with an optical ground wire – OPGW. This project also includes installing telecommunication equipment in substations Kličevo and Brezna in order to provide a voice communication. Project implementation includes: developing the Main Design for replacement of ground wire with optical fibres on the subject overhead line, delivery and installation of the appropriate OPGW with supporting equipment, installation of telecommunication equipment in substation SS Kličevo and SS Brezna.

In 2017, OPGW was delivery and installed on OHL kV Kličevo-Brezna. Telecommunication equipment for SS Kličevo and SS Brezna was delivered and installed. Works, testing and technical acceptance were completed.

8. SS 400/110/35 KV BREZNA

The project of construction of SS 400/110 kV Brezna is necessary to provide conditions for the connection of WPP Krnovo and bidirectional power supply of SS 110/35 kV Žabljak. The construction of SS Brezna is necessary for the connection of the future HPP Komarnica and small HPPs Šavnik and Plužine.

The Investor of construction of WPP Krnovo completed the construction of the infrastructure (SS 10/35 kV Brezna, 110 kV OHL from SS Brezna to the existing 110 kV OHL Kličevo – Brezna, 2x110 kV OHL from SS Brezna to SS Krnovo). It was planned that CGES purchases the mentioned infrastructure with funds provided through the Grant.

In 2017, Procedure for selection of consultant was conducted that will monitor project implementation, and a Contract on provision of consulting services was signed.

9. OTHER PROJECTS

In addition to aforementioned projects described in detail, in 2017 activities were conducted also on the following projects:

- Construction of 400 kV OHL Pljevlja 2 -Bajina Bašta and 400 kV OHL Pljevlja 2 -Višegrad
- Reconstruction of protection system in the entire network
- Replacement of HV equipment in substations
- Rehabilitation of 110 kV OHLs (replacement of equipment and reconstruction)
- Construction of 110 kV OHL Virpazar - Ulcinj
- Rehabilitation of substations-civil part
- Relocation of part of OHL 400 kV Ribarevine - Peć
- Upgrading telecommunication system
- Procurement and implementation of hardware and software for FMIS
- Procurement of instrument transformers
- Rehabilitation of 110 kV OHL Budva - Podgorica 2
- Inverters for substations
- Procurement of surge arresters
- Delivery and replacement of motor drive units of tap changers in SS Berane and SS Virpazar
- Implementation of system for remote access to process networks and connection of new facilities to NDC SCADA system
- Replacement of diesel generator sets in NDC and Reserved Dispatching Centre
- Purchase of collective occupational safety and health equipment
- Purchase and installation of dehumidifiers in 35 kV plants in substations
- Extension and upgrade of automatic meter reading system (AMR)
- Purchase and installation of diesel generating sets in SS Virpazar and SS Danilovgrad
- Purchase of 35 kV circuit breakers
- Reconstruction of 110 kV OHL Budva - Lastva
- Module for submission of data on Transparency platform r2
- Repair of landslide at tower no. 174 on OHL 220 kV Piva - Pljevlja line 265
- Repair of tower no. 15 on OHL 400 kV Ribarevine - Peć
- Reconstruction of 110 kV OHL Lastva -Tivat
- Purchase of fire extinguisher
- Purchase and installation of single pole circuit breakers for switching on and off the 35 kV neutral point of power transformers in SS 220/110/35 kV Podgorica 1 and SS 110/35 kV Tivat
- Construction of 110 kV OHL Vilusi - Herceg Novi
- Construction of 110 kV OHL Lastva - Kotor
- Reconstruction of 110 kV OHL Berane - Andrijevica
- Construction of SS 110/35 kV Žabljak
- Reconstruction (installation) of outdoor hydrant network

Operation Service

In 2017, electrical command operators performed operations of switching equipment in 18 CGES substations.

In SS 400/220/110 kV Pljevlja 2, a revision of 20 220 kV circuit breakers was done, which are over 30 years old.

Testing of transformer oil of power transformers was done at the "Nikola Tesla" Institute in Belgrade, according to the Annual Plan.

Testing and setting of safety valves on compressed air installations in CGES substations was performed.

Cutting and removal of grass, weed and other vegetation within the area of SSs and proximately behind the fence of SSs was performed in all substations.

Maintenance

Substation maintenance

In accordance with the 2017 Maintenance Plan, as well as the standards and technical regulations on the maintenance of transmission network electric power facilities, in the reporting period the Substation Maintenance Service performed a total of 318 work orders, 82 of which were remedial actions.

In the reporting period, the Substation Maintenance Service committed a total of 50 revisions and 18 overhauls of the high-voltage equipment at all voltage levels.

Voltage level	REVISION planned/implemented	OVERHAUL planned/implemented
400 kV	0/0	0/0
220 kV	1/1	1/1
110 kV	21/21	3/3
35 kV	26/26	14/14

Table 3:
Overview of Substation Maintenance Service's activities in 2017

In addition to the planned overhauls and revisions, the planned replacements of the HV circuit breakers, disconnectors, instrument transformers, surge arresters and power transformers - 400, 220, 110 and 35 kV were carried out also.

Name of equipment	quantity
Circuit breaker 35 kV	2
Surge arrester 35 kV	2
Current instrument transformer 35 kV	11
Voltage instrument transformer 35 kV	24
Circuit breaker 110 kV	4
Surge arrester 110 kV	40
Current instrument transformer 110 kV	4
Voltage instrument transformer 110 kV	6
Circuit breaker 220 kV	0
Disconnector 220 kV	0
Voltage instrument transformer 220 kV	0
Circuit breaker 400 kV	0
Surge arrester 400 kV	3
Current instrument transformer 400 kV	0
Voltage instrument transformer 400 kV	1
Power transformer 300 MVA	0
Power transformer 40 MVA	0

Table 4:
Replaced HV equipment:

Hot spots were removed in accordance with the Report on thermal imaging survey plants submitted by the Protection and Testing Service. Of totally 28 detected hot sports, 27 were removed (1 hot sport was not removed due to the impossibility to obtain a no-load state).

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

- Recovery of consequences of the breakdown in OHL bay of 110 kV Trebješica in SS 110/35 kV Andrijevica.

Of the planned activities where it was necessary to additionally hire mechanization and larger number of staff we single out.

- Replacement of circuit breakers 110 kV in OHL bays Perućica 1, Perućica 2 and Perućica 3 in SS 110/35 kV Nikšić;
- Overhaul of circuit breakers 220 kV in generator bay, OHL bay Požega and transformer bay T3 125 MVA in SS 400/220/110 kV Pljevlja 2;
- Replacement of pole of circuit breaker 110 kV in transformer bay T1 40 MVA in SS 110/35 kV Herceg Novi.

Overhead line maintenance

In accordance with the 2017 plan, as well as the standards and technical regulations on the maintenance of electric power transmission facilities, in the reporting period the Overhead Line Maintenance Service performed a total of 92 revisions and 15 overhauls of overhead lines. The overview of activities by voltage levels is shown in Table 5.

	REVISION planned/implemented	OVERHAUL planned/implemented
400 kV	10/10	1/1
220 kV	16/16	1/1
2x110 kV	4/4	0/0
110 kV	54/54	13/13
110(35) kV	8/8	0/0
	92/92	**15/15**

Table 5:
Overview of Overhead Line Maintenance Service's activities in 2017

Upon making the aforementioned line inspections, all the defects which were estimated to be likely to affect the transmission lines operational safety were eliminated. The cutting down of forests in overhead line routes was completed in the range of approximately 780.000 m2. The overhead lines were built approximately 1.500 kg of the missing structures.

During this period, the OHL Maintenance service made 17 emergency remedial actions.

In January, after the breakdown of 110 OHL Bar – Budva, 9 towers were reconstructed and two broken down cross arms were replaced. The following towers were reconstructed: 33, 34, 35, 36a, 37, 38, 39, 40, 43, 83 and 84, which is the second big reconstruction on this overhead line after the reconstruction of the section from tower no. 50 to tower no. 55 completed last year. After these reconstructions, the operational condition of the overhead line is stable.

Replacement of insulators and suspensions equipment on all 10 tension towers no. 114, 115, 123, 126, 141, 145, 149, 155, 160 and 164 was completed on 110 kV OHL Virpazar – Bar. Mechanical and electrical reinforcement of insulation was performed in the first two spans from substation Bar because the overhead line in spans passes new private houses. The insulation is reinforced on towers no. 163, 164 and 165.

Repair of OPGW in spans tower no. 92-93 and 95-96 was performed on 400 kV OHL Podgorica – Trebinje.

Reconstruction of tower no. 52 on 110 kV OHL Ribarevine – Berane was completed and emergency restoration towers used to bypass the section during the reconstruction of this overhead line were dismantled.

On 110 kV OHL Herceg Novi – Tivat, replacement of damaged jumper terminals on tower no. 30 was performed.

Within the overhaul of 110 kV OHL Bar – Ulcinj, a replacement of old porcelain insulators with new glass insulators was performed on towers no. 13, 17, 14, 24, 27, 36, 37, 38, 42, 43, 44, 45, 50, 60 and 61, which has a consequence a higher reliability of the overhead line.

Within the elevation of 35 kV OHL Kličevo – Brezna to 110 kV voltage level, the Overhead Line Maintenance Division performed connection of the overhead line to a cable on tower no. 1.

The Overhead Line Maintenance Division actively participated in works related to the reconstruction of SS 110/35 kV Nikšić. For the needs of supplying the city of Nikšić, connection of 110 kV overhead line Perućica – Nikšić line 1 to transformer T2 was performed. In addition, the dismantle of busbars, cross-links and triggers was done, as well as mounting of cross-links and camber links in bays from E00 to E05.

Removal of links from the overhead line Podgorica – Andrijevica from the gantries of ETP Trebješica was performed due to the reconstruction of this switchgear.

On 220 kV OHL Perućica – Podgorica, the repair of conductors in the span towers no. 81-82 was performed, and damaged insulator chains on tower no. 82 were also replaced.

On 400 kV Ribarevine – Peć, the replacement of broken down spike on tower no. 144 was performed, and damaged insulator chains on this tower were replaced.

On 400 kV OHL Ribarevine – Pljevlja, the replacement of damaged insulator chains on towers no. 41, 108, 157 and 158 was performed.

On 110 kV OHL Kličevo – Brezna, the replacement of classic protection wire with a new OPGW was performed.

On 110(35) kV OHL Berane – Rožaje, the return of the slipped peak phase conductor in spans tower no. 111-112-113 was performed.

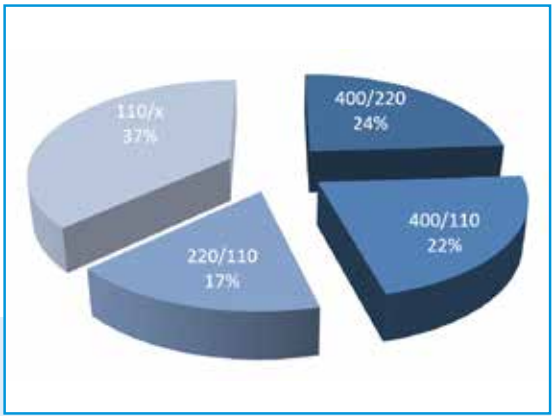
On 110 kV OHL Podgorica – ETP Trebješica – Andrijevica, the replacement of the broken down lower cross-arm on tower on. 131 was performed.

ON 110 kV OHL Nikšić – Bileća, the repair of the broken down tower no. 152 was performed by installing at its sport a tower of the same type from the abandoned section of the overhead line through Dragova Luka.

During this period, the employees in this division had also a series of other activities such as management and participation in several investment projects, route selection, revision of project documents, supervisions on execution and other.

Testing of high voltage equipment and protection

According to the Energy Law, the electricity transmission system in Montenegro consists of overhead lines at 110 kV, 220 kV, 400 kV voltage level and 23 substations with 51 transformers, with a total installed capacity of 3526,5 MVA and transmission ratio of 400/220 kV, 400/110 kV, 220/110 kV and 110/x.



Graph 7:
Installed capacity of power transformers of CGES by voltage levels

In accordance with the 2017 plan, as well as the standards and technical regulations on the maintenance of transmission network electric power facilities, in the reporting period, the Protection and Testing Service performed a total of 348 work orders, out of which 30 were emergency remedial actions.

One hundred seventy four existing protections were controlled and tested. The measurement of partial discharges on all instrument transformers in operation was carried out, as well a thermal imaging inspection of the entire HV equipment of all facilities, and 20 transformers were fully tested.

The effective level of implementation of the 2017 plan was 102.7%.

Voltage level	Planned				Implemented			
	Protection	Partial discharge and thermography	Thermal imaging control of SS	Full testing of ETR	Protection	Partial discharge and thermography	Thermal imaging control of SS	Full testing of ETR
440 kV	7	81	3	2	16	81	3	3
220 kV	11	84	2	2	12	84	2	2
110 kV	51	455	16	10	42	455	16	15
35 kV	28	122	-	-	44	122	-	-
ETR	47	47	-	-	47	47	-	-
Total	144	789	21	14	161	789	21	20

Table 6:
Overview of Protection and Testing Service's activities in 2017

System control

Electricity consumption

A continuing decline in electricity consumption of the largest consumers directly connected to the transmission network stopped in 2014 and 2015, therefore the total consumption in the country in 2017 maintained at that level and amounts 3,28 TWh.

Godina	2009.	2010.	2011.	2012.	2013.	2014.	2015.	2016.	2017.
KAP	965.701	1.241.180	1.386.860	1.110.988	734.855	665.453	643.083	547.647	592.073
Željezara	122.566	79.150	85.823	47.087	29.435	16.109	42.502	35.111	40.458
ŽICG	18.219	20.668	15.006	14.603	19.945	18.063	19.676	20.462	20.321
TEPljevlja sop.p.	0	0	6.826	9.052	9.043	9.423	8.679	10.554	7.621
Distribucija	2.480.834	2.486.704	2.547.375	2.573.781	2.499.532	2.416.706	2.561.092	2.510.332	2.604.327
*Ostali direkt.kupci (na 10 kV)									1.478
Krnovo green energy									612
CRBC - Uvač									2.396
CRBC - Mrke									9.635
Ukupno	3.587.320	3.827.702	4.041.890	3.755.511	3.292.810	3.125.754	3.275.032	3.124.106	3.278.923

Table 7:
Overview of realised consumption for the period 2009-2017

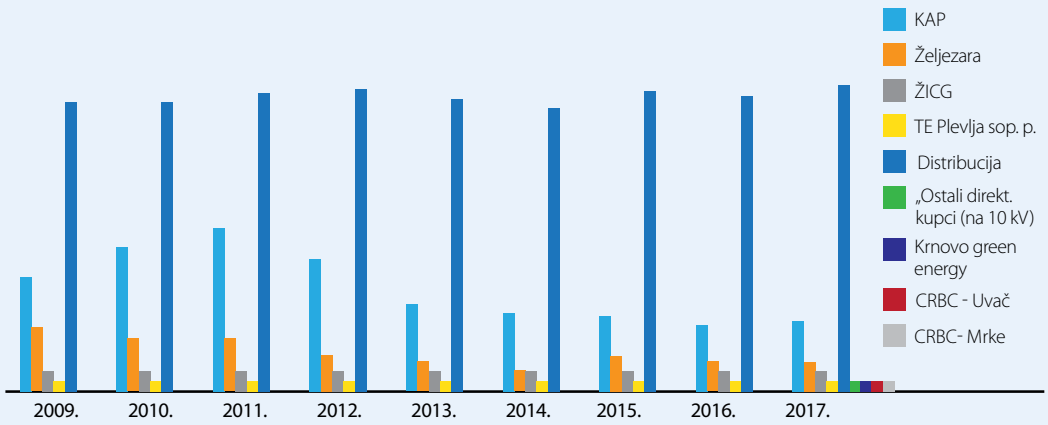


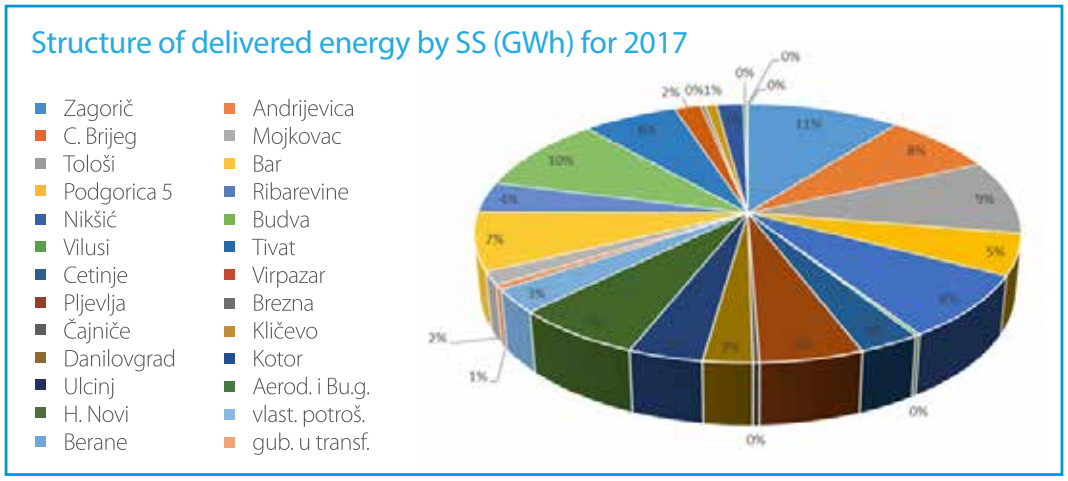
Table 7:
Overview of realised consumption for the period 2009-2017

By a detailed analysis of the above tables, and particularly taking into account the ratio of maximum capacities and minimum peak loads, it can be noted that such ratio goes in favour of the fact that, due to strategic development commitments of the economy, it is necessary to develop the transmission system. Namely, due to a large consumption during the summer tourist season, connection points on the coast record a maximum consumption exactly in such period. The fact that the consumption trend by months of coastal municipalities is often in the opposite direction compared to the consumption trend in the central and northern part makes the consumption diagram at the level of Montenegro more balanced, but this does not mean that individual connection points can be unloaded.

2017	janu.	febr.	mart	april	maj	jun	jul	avgust	septem.	oktob.	novemb.	decem.	ukupno
Zagorič	32.427	24.028	22.267	20.322	18.923	21.021	23.385	25.281	17.966	19.375	23.533	29.186	277.712
C.Brijeg	25.342	18.391	16.752	13.543	12.449	15.089	17.273	18.362	12.464	13.673	17.207	21.319	201.867
Tološi	30.615	22.503	20.115	16.513	15.443	17.156	18.233	20.298	15.875	17.532	22.059	26.620	242.961
Podgorica 5	17.654	12.787	11.376	9.417	8.813	9.685	10.375	10.708	8.519	9.229	11.959	15.192	135.715
Pg.- ukupno:	**106.038**	**77.709**	**70.509**	**59.796**	**55.628**	**62.951**	**69.266**	**74.649**	**54.825**	**59.809**	**74.758**	**92.318**	**858.255**
Nikšić	27.806	22.135	14.845	13.843	12.464	12.532	12.385	14.882	16.541	16.739	17.528	18.357	200.056
uključena spojka	- 144	-	- 5.928	- 5.001	- 4.318	- 235	- 350	684	719	1.415	1.471	613	- 11.074
Nikšić ukupno	**27.950**	**22.135**	**20.773**	**18.843**	**16.782**	**12.767**	**12.734**	**14.198**	**15.822**	**15.325**	**16.058**	**17.744**	**211.131**
Vilusi	608	496	507	479	490	482	533	569	500	535	501	577	6.277
Cetinje	11.545	9.079	7.316	7.669	6.579	4.283	4.861	8.439	4.566	5.026	5.896	8.013	83.272
Pljevlja	15.386	11.763	12.932	11.346	11.069	9.379	11.267	10.906	10.600	10.881	11.199	12.448	139.176
Čajniče	734	663	723	672	690	648	707	698	755	774	796	708	8.568
Pljevlja- ukupno:	**14.652**	**11.100**	**12.209**	**10.674**	**10.379**	**8.731**	**10.560**	**10.208**	**9.846**	**10.107**	**10.402**	**11.739**	**130.608**
Danilovgrad	7.517	5.053	3.950	4.112	3.792	6.703	6.152	6.446	5.408	6.303	5.860	5.127	66.425
Ulcinj	9.014	6.752	6.423	5.910	6.101	7.973	13.575	15.231	7.528	6.383	7.024	8.396	100.311
H.Novi	19.800	15.059	13.499	11.732	10.913	13.012	18.104	19.409	11.936	10.581	12.739	16.838	173.624
Berane	10.257	6.220	3.658	3.419	3.437	5.249	7.702	8.157	7.703	8.316	7.576	5.269	76.963
Andrijevica	2.933	1.913	403	- 734	- 1.046	1.137	2.504	2.892	2.631	2.371	1.126	296	16.427
Mojkovac	4.900	3.487	3.355	3.092	3.088	3.055	3.584	3.715	3.351	3.744	3.547	3.485	42.403
Bar	20.524	15.184	14.261	12.881	12.013	14.421	20.514	22.405	13.390	12.456	14.501	18.421	190.972
Ribarevine	11.164	8.466	8.349	7.859	7.677	7.323	8.028	8.329	7.972	8.647	8.280	8.346	100.441
Budva	22.591	16.640	16.034	15.309	16.578	22.863	31.732	34.361	21.050	15.811	16.178	20.854	250.001
Tivat	22.630	17.158	16.405	13.520	12.964	17.068	14.086	13.845	9.436	9.229	10.548	13.434	170.322
Virpazar	4.048	3.054	3.461	3.336	3.607	3.989	5.432	5.406	4.060	4.353	3.631	3.366	47.743
Brezna	-	-	3	803	968	1.376	430	421	307	1.098	1.125	1.405	7.938
Kličevo	-	-	-	-	-	989	2.652	1.474	-	3.579	4.948	6.859	20.501
Kotor	-	-	-	-	-	-	8.220	7.045	6.504	7.117	8.786	10.330	48.001
Aerod. i Bu.g.	687	490	433	353	349	431	485	523	387	384	461	562	5.545
suma	**296.857**	**219.994**	**201.548**	**179.056**	**170.300**	**194.805**	**241.156**	**257.723**	**187.222**	**191.172**	**213.945**	**253.381**	**2.607.159**
vlast.potroš.	372	282	249	213	174	145	156	167	155	198	250	323	2.684
gub.u transf.	12	12	12	12	12	12	12	12	12	12	12	12	148
Predato na 35kV	**296.473**	**219.700**	**201.287**	**178.831**	**170.114**	**194.647**	**240.988**	**257.543**	**187.054**	**190.962**	**213.682**	**253.045**	**2.604.327**

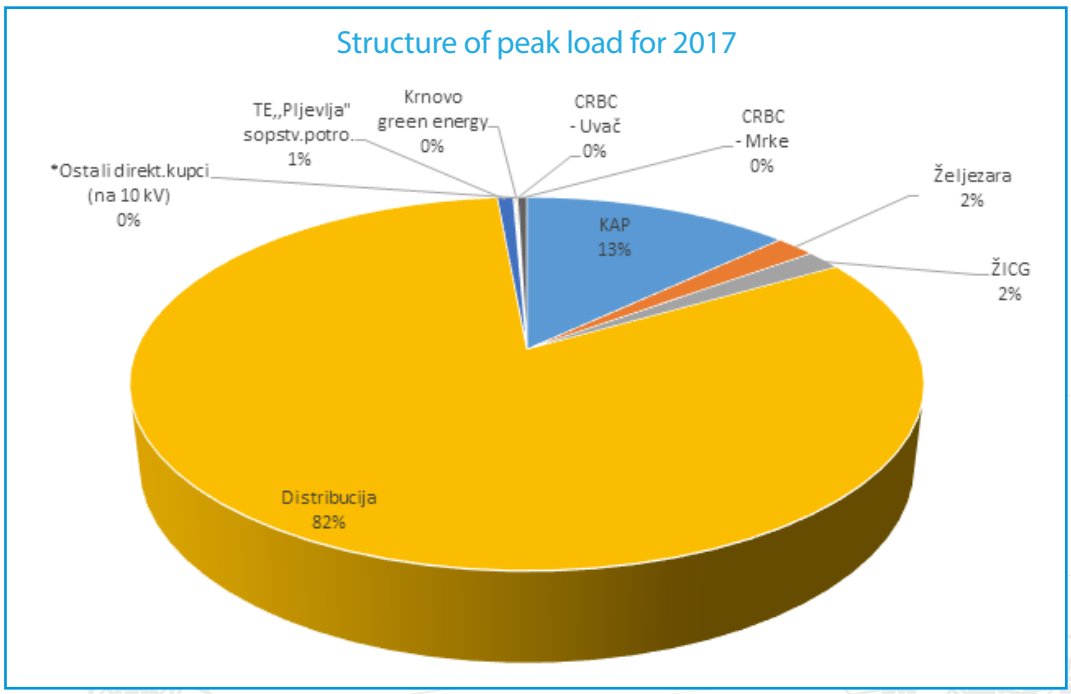
Table 8:
Electricity delivered by substations

The following diagram shows electricity delivered to the distribution network in 2017 by substations (MWh):



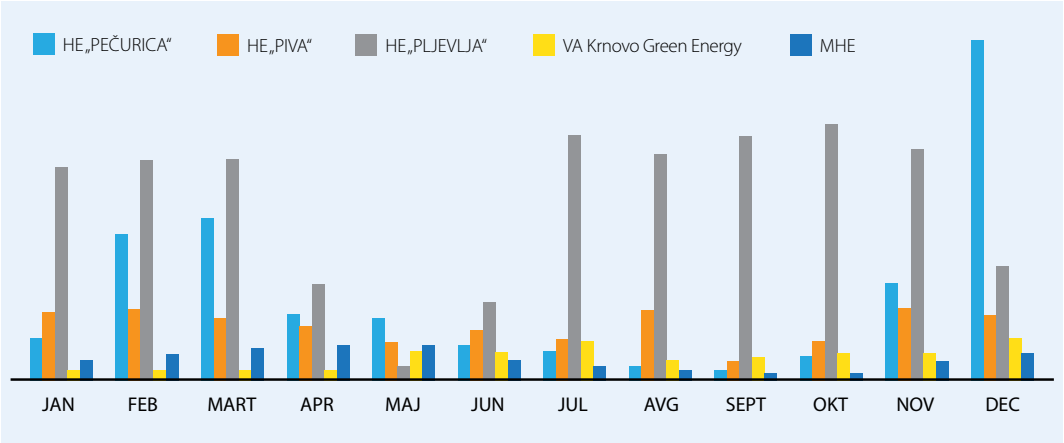
2017	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEP	OCT	NOV	DEC
KAP	66,3	65,6	69,0	69,8	71,4	71,4	72,6	72,1	72,5	70,5	70,7	73,5
Željezara	6,9	8,9	10,1	15,4	9,7	12,4	9,1	9,5	11,0	10,1	10,8	10,8
ŽICG	8,7	10,2	7,9	9,3	9,2	7,7	8,7	11,8	8,7	8,9	10,5	10,3
Distribution	575,5	463,2	415,5	387,0	335,1	427,3	496,3	536,9	381,3	359,6	440,4	497,9
TPP "Pljevlja" auxiliary consumption	9,4	1,4	6,9	1,1	0,8	7,3	1,2	1,2	1,2	1,3	7,1	11,5
*Other direct customers (at 10 kV)	0,4	0,4	0,4	0,4	0,1	0,4	0,4	0,4	0,4	0,4	0,5	0,5
Krnovo Green Energy	-	-	-	0,3	0,4	0,5	0,5	0,4	0,5	0,5	0,5	0,5
CRBC - Uvač	-	-	-	0,3	0,5	0,5	0,5	0,6	0,7	0,7	0,8	0,7
CRBC - Mrke	-	-	-	5,3	2,5	2,8	2,9	3,0	2,9	3,0	3,2	3,2
Total	**667,3**	**549,8**	**509,8**	**489,0**	**429,6**	**530,3**	**592,2**	**636,0**	**479,4**	**455,2**	**544,5**	**609,0**

Table 9:
Peak loads by direct consumers in MW



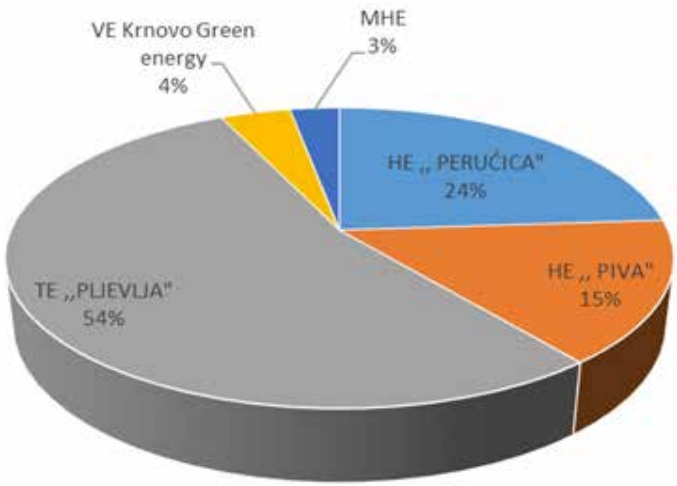
Electricity generation

A total of 2.35 TWh (with small HPPs) of electricity was injected in the transmission system from generating facilities.



Due to a decrease in consumption in the country on the one hand and a very good hydrology on the other, the multi-decade practice of a huge electricity deficit has stopped in the last several years.

Structure of realised consumption for 2017



Total energy transferred through Montenegrin power system

Based on Table 4, we can conclude that the total energy transfer enabled by CGES did not continue its multi-year upward trend. Despite the recovery of domestic consumption, due to slightly worse hydrological conditions in the whole region and lower electricity transits, 5.73 TWh of electricity was transferred through the Montenegrin transmission system during the year, which is lower by 4% compared to 2016.

Year	2009.	2010.	2011.	2012.	2013.	2014.	2015.	2016.	2017.
Transferred energy (GWh)	5.614	6.275	5.980	6.130	6.636	6.771	5.781	5.738	5.490

Table 10:
Total transferred energy for the period 2009-2017

Quality of delivery of and cancellation of cross-border capacities

TIn 2017, the quality of electricity delivery to consumers connected to transmission system had additionally improved.

The quantity of undelivered electricity, due to unforeseen interruptions, according to the Rules of Minimum Quality Requirements for Electricity Delivery and Supply, amounted to 643,771 MWh.

There were no cancellations of cross-border transmission capacities due to unavailability of interconnection overhead lines, therefore the availability of allocated capacities was 100%..

SOCIAL PHILANTHROPY PROJECTS DURING 2017

As one of the leading companies in the country, CGES endeavours to be present in all areas important for the Montenegrin society. Besides the tendency to fulfil our primary task and obligation referring to quality of electricity supply to consumers connected to the transmission system, our Company sees its role also in an active and constant contribution to development of the community in which it operates. The areas on which we focused in this document, are the following: health, sport, development of local community through support to projects…

Focusing on socially responsible activities brought to CGES multiple benefits in 2017. Primarily, it enhanced its reputation, reduced the risks from crisis situations through strengthening links with local community and others, contributed to a better positioning of the Company before the public, as well as a better loyalty of employees.

CGES and the Centre for Protection and Research of Birds (CZIP) continued, for the third year in a row, a successful cooperation. The project under the name "Night of Owls" showed to be very successful, from both a scientific-research aspect and media representation of the event.

As a socially responsible company, CGES invests in healthcare and gives its contribution to the enhancement of healthcare services, so it is not a coincidence that a donation was awarded to the General Hospital in Pljevlja in 2017, the municipality in which CGES implements investments of vital significance.

CGES strengthens its connection with the local community through donations and other types of assistance. Namely, €10,000 was donated to the Municipality of Šavnik for maintenance and modernization of the local infrastructure.

CGES supported the first Montenegrin Telethon under the slogan - "Support, win".

The objective of this humanitarian action, held on 15 February in Podgorica, was to help children fighting against cancer.

Support to the development of Montenegrin sport is an important part of socially responsible operation of CGES, which is always linked to the best, therefore we sponsored the Water Polo and Swimming Association of Montenegro in 2017. In that manner, we provided support to the most successful Montenegrin water polo players who achieve global results.

We supported also the "Podgorica Marathon".

A part of our attention we directed also to various social manifestations such as music and acting festival and similar cultural-artistic activities. On this occasion, we single out the sponsorship we awarded to the Capital City, i.e. City Groove Festival, on the occasion of the Independence Day.

REGULATORY FRAMEWORK

In the process of harmonization of the national legislation with the European acquis communautaire, and particularly in the part of implementation of the Third Energy Package of the EU through the Energy Law, significant normative activities were conducted in 2017 aimed at adopting new or harmonising the already existing secondary acts.

The Company, in the capacity of transmission system operator, had a very active part in the conducted normative activities, particularly when it comes to determining and harmonising acts which regulates transmission system functioning, as well as congestion management and allocation of cross-border capacities for electricity transmission. In addition, it should be particularly underlined the fact that a new Transmission Grid Code was adopted in late 2017.

The new Code is based on the principles of fairness and non-discrimination in their application with reference to all transmission system users, and particularly taking into account that the Code prescribes standard contracts, i.e. contracts on connection to transmission system, on use of transmission system, purchase of ancillary services and balance energy, purchase of electricity for covering transmission system losses, as well as contracts on the right of access to transmission system for the use of cross-border transmission capacity.

Pursuant to the Decision of the Energy Regulatory Agency on setting regulatory allowed revenue and prices to CGES for the period 01 January 2017 – 31 December 2019, the prices for 2017 were set as follows:

- Price for the use of electricity transmission system paid by electricity producers directly connected to transmission system in the amount of 788,7247 €/MW/month;
- Price for the use of electricity transmission system paid by other undertakings in the amount of 1,7490 €/kW/month;
- Price for allowed electricity losses in transmission system in the amount of 0,1472 €c/kWh.

Pursuant to legal competences, the Energy Regulatory Agency monitors the operation of energy undertakings and carries out regular controls of implementation of investment plans, as well as the actual of energy and economic values based on which the regulatory allowed revenue is set.

The Energy Regulatory Agency, in cooperation with energy undertakings and interested parties, continuously work on the improvement of the regulatory framework in the energy sector thus creating preconditions for the development, stability and efficient functioning of the electric power sector in wholew.

Shareholders' Assembly

The Shareholders Assembly is the ultimate authority of the 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 acts, property, election and status related decisions.

Two meetings of the Shareholders' Assembly were held in 2017. VIII Ordinary Shareholders' Assembly of CGES was held on 29 June 2017. In addition to decisions on adoption of 2016 Operating Statement, 2016 Financial Statements 5 with the Auditor's Report, and the decision on selection of the auditor for 2017, the Assembly elected members of the Board of Directors. The Extraordinary Shareholders' Assembly was held on 15 December 2017 for the selection of members of the Board of Directors, after which one Board member resigned.

Board of Directors

The Board of Directors is authorised to manage and govern the Company, monitor ongoing 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 CGES Board of Directors consists of seven members. At V Extraordinary Shareholders' Assembly held on 15 December 2017, the Board's elected member were Vesna Bracanović (Chairwoman), Tamara Ivković (member), Zoran Miljanić (member), Zoran Rakočević (member) acting as representatives of the State, Giovanni Cerchiarini (Vice Chairman), Carlo Crea (member) acting as representatives of Terna Rete Elettrica Nazionale S.p.A, and Jelena Matejić (member).

During 2017, the Board worked in accordance with the Work Plan of the Board of Directors and considered significant issues related to the work and operation of the Company.

Members of the Board are entitled to remuneration for their work in the Board, which is determined by the Remuneration Policy of Crnogorski elektroprenosni sistem AD adopted by the Shareholders' Assembly.

Company Secretary

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 prepare and ensure the work of the Shareholders' Assembly and the Board of Directors in accordance with the Companies Act, By-Laws of the Company and Rules of Procedure of these bodies.

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

The Company Secretary of CGES is Olgica Ivanović, LLB.

Management

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

Executive Director

Pursuant to the By-Laws of CGES, the Executive Director manages the Company and organises ongoing business activities of the Company, 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 he/she concludes 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.

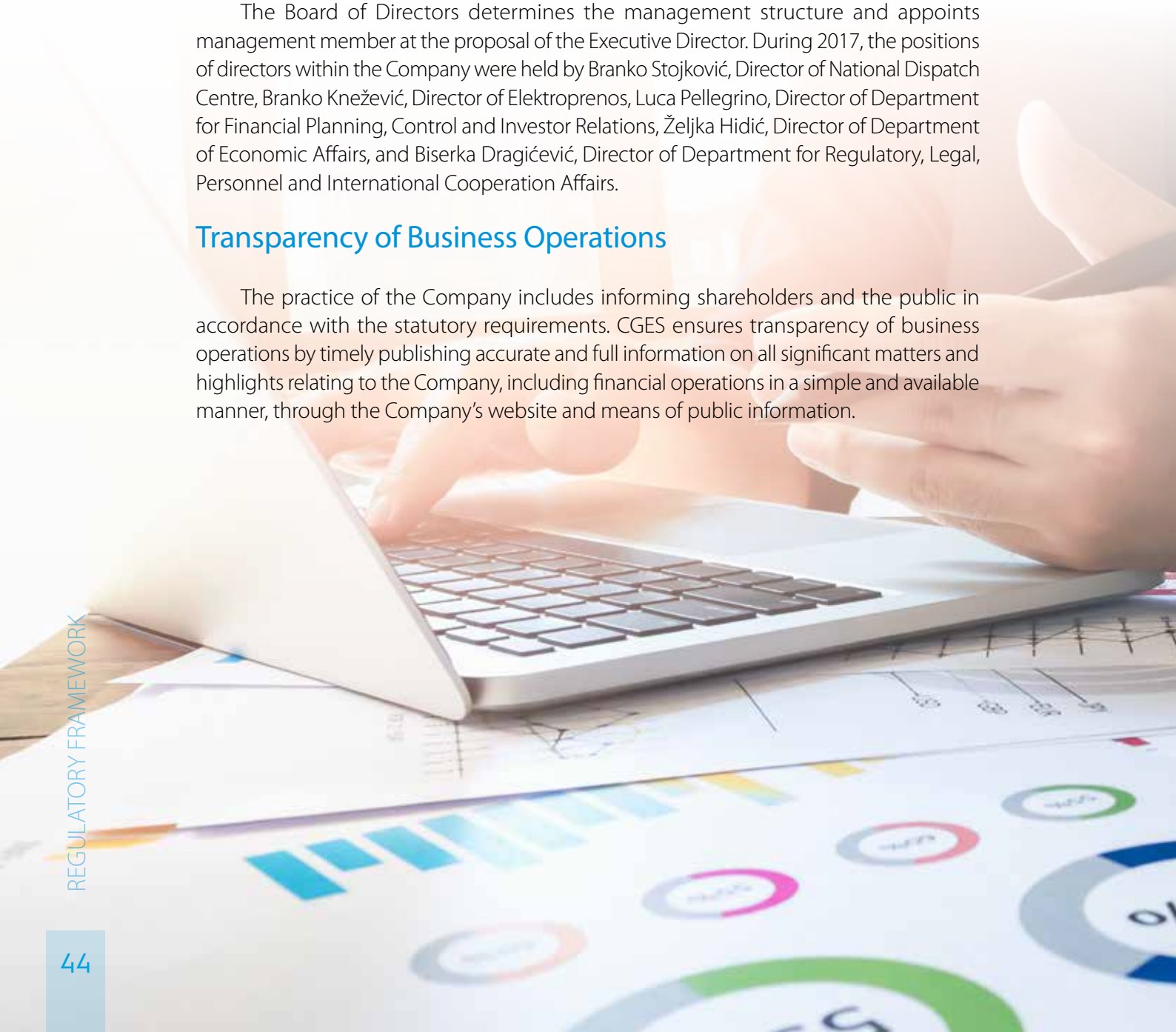
Since December 2017, the position of Executive Director of CGES is held by Dragan Kujović.

Management Team

The Board of Directors determines the management structure and appoints management member at the proposal of the Executive Director. During 2017, the positions of directors within the Company were held by Branko Stojković, Director of National Dispatch Centre, Branko Knežević, Director of Elektroprenos, Luca Pellegrino, Director of Department for Financial Planning, Control and Investor Relations, Željka Hidić, Director of Department of Economic Affairs, and Biserka Dragićević, Director of Department for Regulatory, Legal, Personnel and International Cooperation Affairs.

Transparency of Business Operations

The practice of the Company includes informing 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 website and means of public information.



SALARIES AND REMUNERATIONS

Salaries, remunerations and other employee benefits are determined by the Collective Agreement of the Company, excluding salaries and remunerations of the corporate bodies and members of the Company's management, which are determined by special contracts and decisions of the competent authorities on the basis of this Remuneration Policy for occasional and temporary work stipulated by contracts concluded between the executive director of the Company and the employees.

Short-term and long-term bonuses

The Company's policy of salaries and remunerations did not envisage payment of bonuses in 2017.

Other benefits

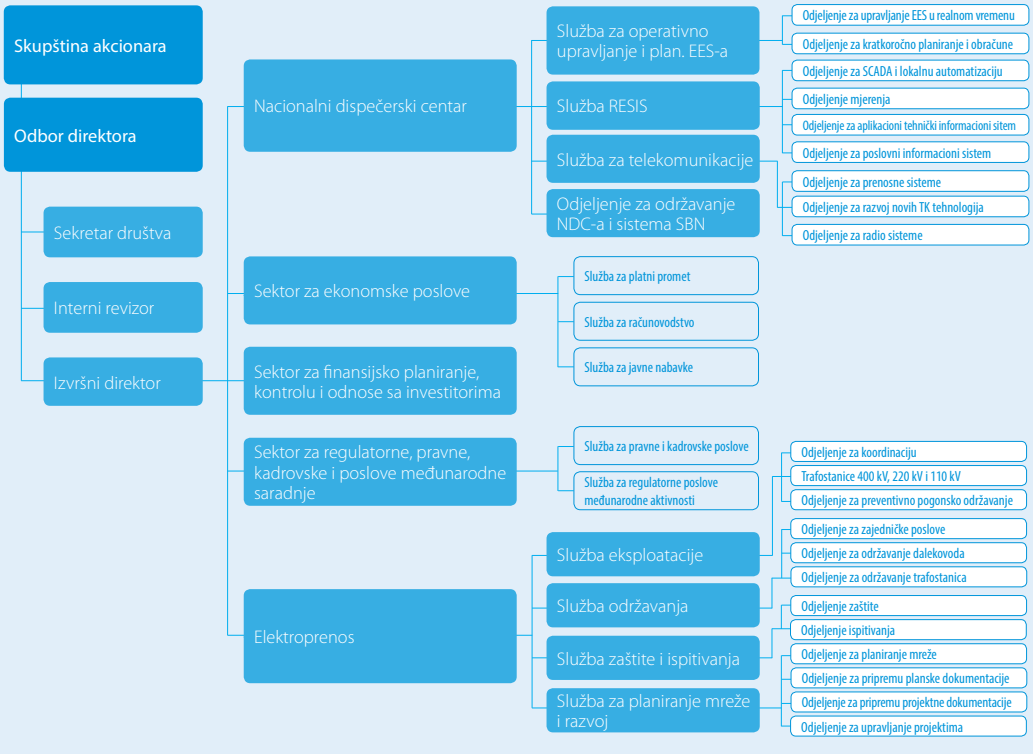
Telecommunication costs are covered for employees by the set limit with the aim of optimizing internal communication within the Company.

ORGANISATIONAL STRUCTURE

Organisation and the foundations of systematisation, competences and activities of organisational units, coordination of management and operation and other matters significant for the internal organisation of the Company are governed by the Rulebook on Systematisation. 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 organised, coordinated and performed in the Company.

The Company's organisational structure consists of the Company's authorities and organisational units of the Company.

Management of the Company is divided into five organisational units managed by directors, and the Executive Director manages a common work with the support of three assistants.



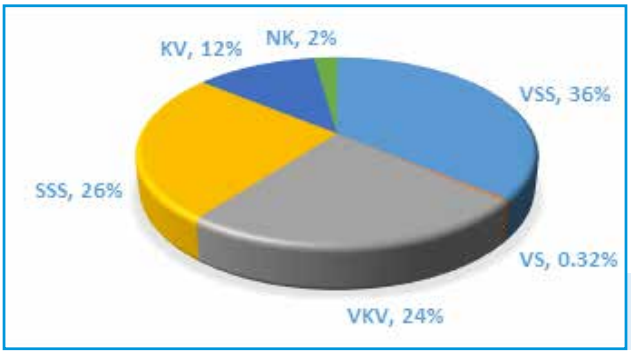
CGES organisational chart

HUMAN RESOURCES

In facing the challenges of implementation a very intensive investment cycle, efforts to reach the position of an optimized, but completely independent transmission system operator, the Company strives to pay particular attention to the promotion of human resources.

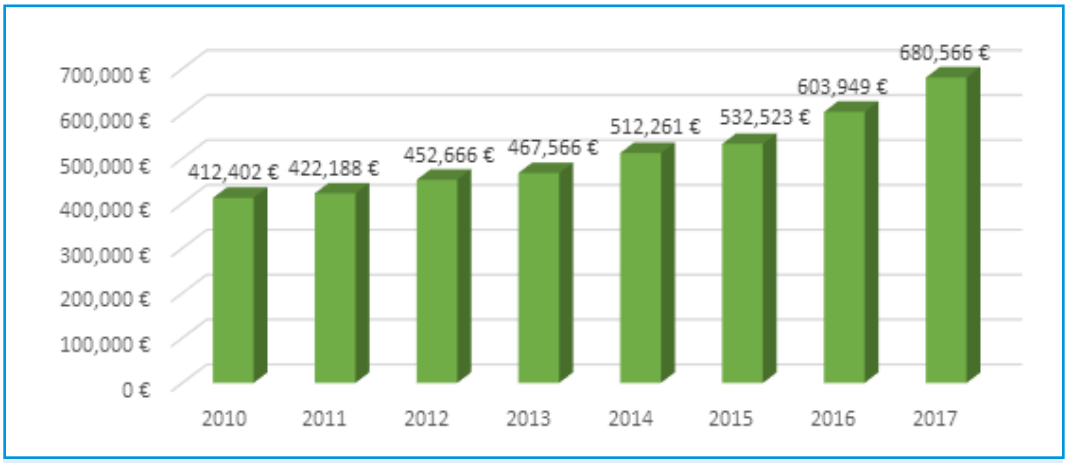
According to the Auditor's Report, as of 31 December 2017, the total number of employees in CGES was 313. That number includes 293 employees had full-term employment contracts, and 20 employees with fixed-term employment contract. The average age of CGES employees is 40.00.

Five years in a row, we have been supporting the Government programme of vocational training of persons who acquired, and nine persons with a higher level of education carried out the vocational training within our Company.



Qualification structure of employees

Taking into account, on one hand the significance of the energy sector for a total employment rate in the country, and the necessity of optimization of all costs of the core activity, including personnel costs, on the other, the Company has been improving from year to year one of the main efficiency parameters – 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 optimisation of regulated costs.



Value of assets per employee [€] in the period 2010 - 2017

OCCUPATIONAL SAFETY AND HEALTH MEASURES

Within permanent Company's activities in ensuring adequate occupational safety and health measures for employees during 2017 many occupational safety and health related activities were performed:

- Periodical medical examinations of employees at workplace with special work conditions, as well as extraordinary examinations at the request of employees or employer for a total of 190 employees;
- Completed training new employees for safe work, as well as those who in the meantime have changed their work place;
- Purchase of new and testing of existing HV collective protection equipment;
- Inspection of electrical and lightning protection installations in the Company's facilities was performed;
- Inspection of work assets in the Company's facilities was performed;
- Training for fire extinction and evacuation procedures for 40 employees was completed;
- Personal occupational safety assets (work suits, work shoes, works jackets) were purchased;
- Control of implementation of occupational safety and health measures was performed;
- Inspection and service of fire extinguishers and hydrant networks and reconstruction of outdoor hydrant network in SS Berane, SS Ulcinj and SS Mojkovac;
- Works on new infrastructure facilities were visited with the aim of getting an insight and control of implementation of occupational safety and health measures;
- New signs of warning, prohibitions and notices were purchased;
- Updating of records relating to occupational safety and health;
- Two lighter injuries at work were recorded during the year.

ENVIRONMENTAL PROTECTION MEASURES

CGES manages its environmental protection policy by being ecologically conscious and engaged, in accordance with the valid legal regulations in the field of environmental protection.

Pursuant to the Law on Environmental Impact Assessment, if projects that we implement can have an impact on the environment, we ask the competent authority to approve the environmental impact study, or a decision that an environmental impact study is not needed.

In order to inform the public, our Company published the Brochure on electromagnetic radiations on its website. Calculation of electromagnetic fields is performed when designing overhead lines and substations in order to ensure that electromagnetic radiations of constructed facilities will be within allowed limits. First meterings are performed as a confirmation to the aforesaid after which constructed facilities can obtain a use permit. In addition, periodical meterings are performed later on during the operation of facilities, thereby periodically checking the levels of electromagnetic radiations. Meterings are performed solely by an independent accredited institution. This field is regulated by the Law on Protection from Electromagnetic Radiation ("Official Gazette of Montenegro", no. 35/2013) and supporting secondary acts.

CGES facilities are a source of the corona noise that occurs due to high values of the electric field around the conductor lead to the ionisation of the surrounding environment and at sufficiently high voltage leads to breakthroughs and electrical discharge, which is manifested by a sound effect. The corona effect is present in close proximity to a facility and it depends on several factors, of which most significant are voltage levels and atmospheric conditions.

Noise can occur also during the implementation of projects on site, and it has a temporary character with the highest level of presents at the location of project implementation.

Waste management is one of the important activities that is conducted in order to protect the environment. Waste management in accordance with the principles of sustainable development, i.e. efficient use or resources that implies – prevention of waste occurrence when possible, proper waste storage (especially of hazardous waste), preparation

of existing waste for reuse, recycling or getting energy – allows to preserve the environment from negative impact arising from working processes. CGES AD treats waste pursuant to the Law on Waste Management and according to the "Waste Management Plan of CGES AD" approved by the Environmental Protection Agency in November 2013. Waste produced in 2017 was taken by authorised persons that have a licence for the treatment of waste types produced by CGES by the end of the aforesaid year. There was no stored waste in CGES facilities at the end of 2017.

Waste code from the waste catalogue	Quantity of waste produced in 2017 (t/year) and handed over to the authorised person
17 04 10*	6,56
20 01 35*	0,8
16 02 14	0,2
17 04 01	3,32
17 04 02	1,86
17 04 05	30,08
17 04 11	6,34

Table 11: Waste produced in 2017

Pursuant to the legal regulations, the Annual Report on Waste Quantity was submitted to the Environmental Protection Agency and Ecological Inspection. In addition, this report was submitted to the Statistical Office of Montenegro (MONSTAT) for the needs of keeping statistics on quantities of produced waste in the industry.

Profit & Loss

The financial statements for 2017 show a profit of 4.7 mln €.

Revenues amount to 34.7 mln €, mainly related to transmission network use (19.9 mln €), transmission losses (5.2 mln €), revenues from balancing and system services (4.3 mln €) and capacity allocation (4.0 mln €)..

Operating expenses reached 24.1 mln € and mainly refer to transmission losses (7.0 mln €), personnel costs (6.4 mln €) and costs of balancing and system services (4.7 mln €) and other costs (3.0 mln €).

EBITDA (earnings before interest, taxes and depreciation) is equal to 10.6 mln € with a margin 31%.

Profit & Loss

	EoY 2017	EoY 2016	2017 vs. 2016
€ mln			
Revenues from transmission network use	19.9	17.6	2.3
Revenues from charges for losses	5.2	5.0	0.2
Revenues from allocation of cross-border capacities	4.0	2.8	1.2
Revenues from balancing and system services	4.3	3.5	0.8
Other revenues	1.3	1.3	(0.1)
Total Revenues	34.7	30.2	4.5
Personnel	6.4	6.0	0.5
Material	0.2	0.2	0.0
Third party services	1.6	1.4	0.2
Costs of balancing and system services	4.7	4.3	0.4
Other	3.0	2.6	0.4
Transmission network losses	7.0	5.3	1.7
Capacity resale	1.2	0.4	0.8
Total costs	24.1	20.2	3.9
EBITDA	10.6	10.0	0.6
Margin	31%	33%	-3%
Depreciation	7.3	7.2	0.1
EBIT	3.3	2.8	0.4
Margin	9%	9%	0%
Net financial expenses	(2.0)	0.1	(2.1)
Financial revenues	2.5	0.6	1.9
Financial expenses EBRD Lastva – Pljevlja	0.2	0.2	0.0
Financial expenses KfW Lastva-Pljevlja	0.0	0.0	(0.0)
Financial expenses EU Grant	-	-	-
Financial expenses revolving facility	-	-	-
Financial expenses other debt	0.3	0.5	(0.2)
EBT	5.3	2.7	2.5
Taxes	0.6	0.3	0.3
Net income	4.7	2.4	2.2

Income tax: is calculated as 9% of taxable profit plus fiscal adjustments (i.e. depreciation costs, provisions for severance packages and jubilees, etc.).
Actual vs. previous year (+0.3 mln €) due to a higher taxable profit.

Net income: actual vs. previous year is higher (+2.2 mln €) due to a higher taxable profit.

Balance Sheet

€ mln	EoY 2017	EoY 2016	2017 vs. 2016
Fixed assets	213.0	198.7	14.3
Working capital	(6.1)	8.5	(14.6)
Funds	2.5	2.2	0.3
Net invested capital	204.5	205.0	(0.5)
Share capital	183.7	179.0	4.6
Paid in capital	155.1	155.1	-
Reserves	(0.1)	(0.1)	(0.0)
Carried forward results	28.7	24.0	4.7
Net income from previous years	24.0	21.6	2.4
Current net income	4.7	2.4	2.2
Dividends	-	-	-
Net debts	20.8	26.0	(5.2)
Cash	40.0	29.7	10.3
Long-term debts	60.8	55.7	5.1
EBRD Lastva – Pljevlja	30.6	22.1	8.6
KfW Lastva – Pljevlja	16.3	16.5	(0.2)
KFW (Luštica)	-	-	-
Revolving facility	-	-	-
Other debts	13.8	17.1	(3.3)
Short-term debts	-	-	-
Dividends	-	-	-
Total liabilities	204.5	205.0	(0.5)

Net financial debt

Actual vs. end of 2016 is lower by 5.2 mln € mainly due to investments in additional and associated infrastructure funded with loans, partially compensated by repayments of the existing loans. In addition, the level of total cash in comparison with last year is higher by 10.3 mln €.

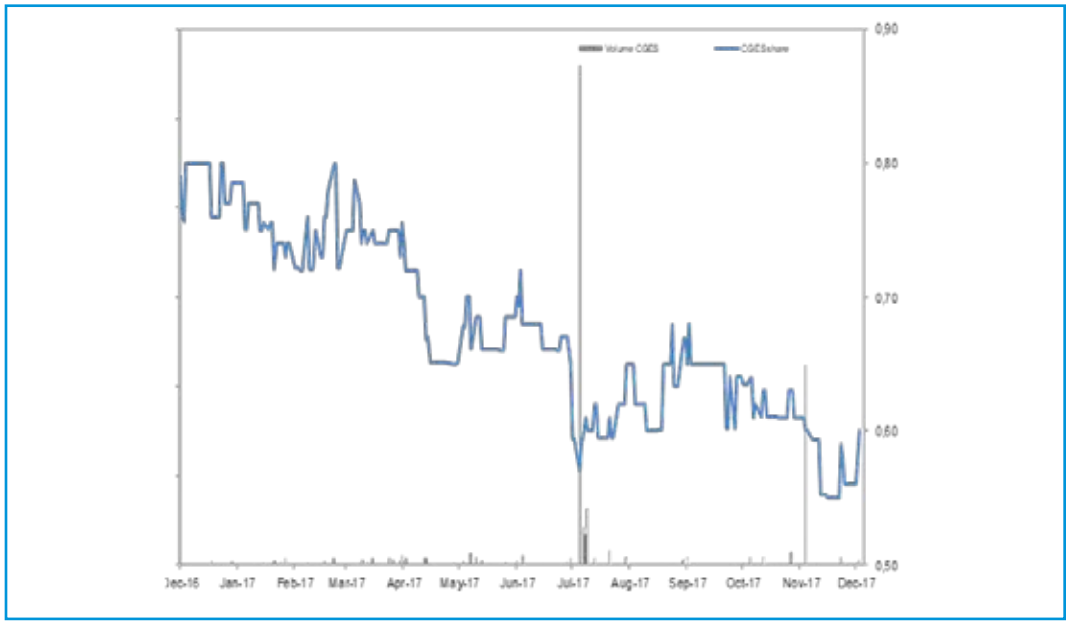
Cash Flow

Cash Flow		
€ mln	EoY 2017	EoY 2016
Initial balance	29.7	31.9
EBIT	3.5	2.8
Taxes	(0.6)	(0.3)
Depreciation	7.3	7.2
Delta - Working capital	14.4	3.3
Delta - Funds	0.3	0.1
Delta - Investments	(21.7)	(30.7)
Total operational activities	3.2	(17.7)
Financial expenses	2.0	(0.1)
EBRD loan Lastva – Pljevlja	8.6	9.9
KfW loan Lastva – Pljevlja	(0.2)	7.5
KfW – Luštica	-	-
Revolving facility	-	-
Delta other debts	(3.3)	(1.8)
Total financial activities	7.1	15.6
Injected capital	(0.0)	(0.1)
Dividends	-	-
Injected capital	(0.0)	(0.1)
Total	10.3	(2,2)
Final Balance	40.0	29.7

Membership on the stock exchange and CGES shares

As of 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.

On the graph below is shown the trend of the company's shares, which shows a decrease from € 0.80 per share at the beginning of the year to € 0.60 per share, as was the value of 31 December 2017.



INTERNAL AUDIT REPORT

The role of the established internal audit is to provide independent and objective assurance and consulting services, thus contributing to achieving Company's objectives and improving operations. By carrying out its activities the internal audit contributes to implementing policies, programs and activities, as well as to the effective, efficient and economical resource management.

Internal audit ensures independent and objective assurance about the adequacy and effectiveness of controls with the auditing entity, contributes to identification of critical risks liable to adversely affect the Company's operations, and at the request of the management provides consultative activities.

Efficient process of internal auditing is an integral part of every control system and a key instrument of successful management. Internal audit provides the management with objective expert opinions and gives advices about the adequacy of financial management system and controls with the aim of improving business operations. Under its arrangement, the internal audit gives recommendations to mitigate and overcome risks in an economical manner, thus bringing additional values to the Company.

With aim of achieving its mission, the internal audit uses a systematic and structural approach, including detailed risk assessment in developing work plans. A starting point for planning internal audit activities is a thorough understanding of the entity, its objectives and key risks.

Audit planning allows the Internal Auditor to achieve objectives, establish priorities and ensure efficient and effective use of resources, as well as:

I. The basis for assessing future needs for resources;
II. An authorization to act according to the plan, after being adopted by the Board of Directors;
III. Standard in relation to which actual success is measurable;
IV. An instrument through which the management should accept activities performed by Internal Auditor;
V. Permanent records of factors taken into account in establishing plan and adopted decisions.

In accordance with Strategic and Annual Plan of Internal Audit, during 2017 the internal audits of business processes of warehouse operation and controlling oil level in spare power transformers were carried out.

In addition, in June 2017, CGES Executive Director approved Plan for continuing professional training and expert development of internal auditor for the year 2017. Pursuant to the International standards for professional practice of internal auditing 1230 – Continuing professional development, the Internal Auditor is required to develop the document. This Standard specifies the following: "Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development".

In addition, during 2017 the Internal Auditor also carried out the following activities:

- Developing draft Procedure for planning internal audit activities, the purpose of which is to implement plans based on the risks in line with legal regulations and International standards

for professional practice of internal auditing and to review and update the plan annually;

- Developing draft Procedure for conducting internal audit, the purpose of which is to provide, in line with legal regulations and International standards for professional practice of internal auditing, a systematic and disciplinary approach to the assessment and improvement of efficiency of risk management, controls and management processes within CGES.
- Developing draft Procedure for providing consulting services, the purpose of which is to make the Company management familiar with the way of performing consulting services in the field of financial management and control, as well as risk management.
- Developing draft Internal Auditor Risk Register, because the adequate risk management is of paramount importance for the activities of Internal Auditor, as well as for the capability of performing assigned responsibilities. Efficient risk management also contributes to the enhancement of management structure, particularly in the process of planning and decision making, which will contribute to developing the risk management process into a standard, generally accepted concept and integral part of management to support optimal use of Company's resources, thereby creating good assumptions for better decision-making and business efficiency, as well as for better planning and optimal use of available resources, which also contributes to winning trust in the management system.
- Developing draft Program for ensuring and improving internal audit quality. In line with International standards for professional practice of internal auditing 1300, the Program for ensuring and improving quality requires Internal Auditor to establish a program to cover all aspects of internal auditing, which is underway. The Program for ensuring work quality of Internal Auditor is prepared so as to provide assurance that the internal auditing:

1. carry out activities in line with the applicable Internal Audit Charter, as harmonized with standards, definition of internal audit and Code of Ethics;
2. operate in an efficient and effective manner;
3. provide that stakeholders consider it as adding value and improving business operations.

The main objective of the activities of Internal Auditor during 2017 is to improve business operations of the Company through checking managerial and control mechanisms and giving recommendations and advices with respect to the activities in the process or system subject to auditing.

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TRANSLATION

TO THE SHAREHOLDERS

CRNOGORSKI ELEKTROPRENOSNI SISTEM AD, PODGORICA

Independent Auditor's Report

We have audited the accompanying financial statements of Crnogorski elektroprenosni sistem AD Podgorica (hereinafter: "the Company"), which comprise the balance sheet as at 31 December 2017, the income statement, statement of changes in equity and cash flow statement 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 true and fair view of these financial statements in accordance with the applicable Law on Accounting 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the applicable legislation that regulates audit in Montenegro. Those legislations that regulate audit require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 preparation and true 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 principles 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.

Hipotekarna banka a.d. Podgorica, račun 520-1370100-53
Erste Bank a.d. Podgorica, račun 540-1000002318221-33
PIB 02626837 PDV 30/31-055090

Opinion

In our opinion the financial statements present true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the applicable Law on Accounting of Montenegro.

Emphasis of Matter

We draw attention to Note 20 to the financial statements which describes the uncertainty related the claim of EPCG in the amount of EUR 8,133,148. The dispute in is progress and the management assessed that it is more likely than not that the Company will not have to transfer any economic benefits to satisfy the claim. As a result, no provision has been recognised by the Company in relation to this matter in the financial statements as at and for the year ended 31 December 2017. Our opinion is not modified in respect of this matter.

Other Legal and Regulatory Reporting

Annual Management Report

Management is responsible for the preparation and presentation of the Annual Management Report.

Our opinion on the financial statements does not cover the Annual Management Report and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Annual Management Report and, in doing so, consider whether the Annual Management Report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In accordance with the requirements of the Law on Accounting in Montenegro we considered whether the Annual Management Report has been prepared in accordance with the requirements of Articles 11, 12, 13 and 14 of that Law.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and the procedure above, in our opinion:

- The information given in the Annual Management Report for the financial year for which the financial statements are prepared, is consistent with the financial statements;
- The Annual Management Report has been prepared in accordance with the requirements of Articles 11, 12, 13 and 14 of the Law on Accounting in Montenegro.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management Report. We have nothing to report in this respect.

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Furthermore, we report that as at date of this report the Company has not constituted an audit committee, which is required by the Law on Audit of Montenegro.

Podgorica, 25 May 2018

KPMG d.o.o. Podgorica

(L.S.)

Dušanka Ivović
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, 25 May 2018

KPMG d.o.o. Podgorica

(L.S.)

Dušanka Ivović
Certified auditor

CRNOGORSKI
ELEKTROPRENOSNI
SISTEM