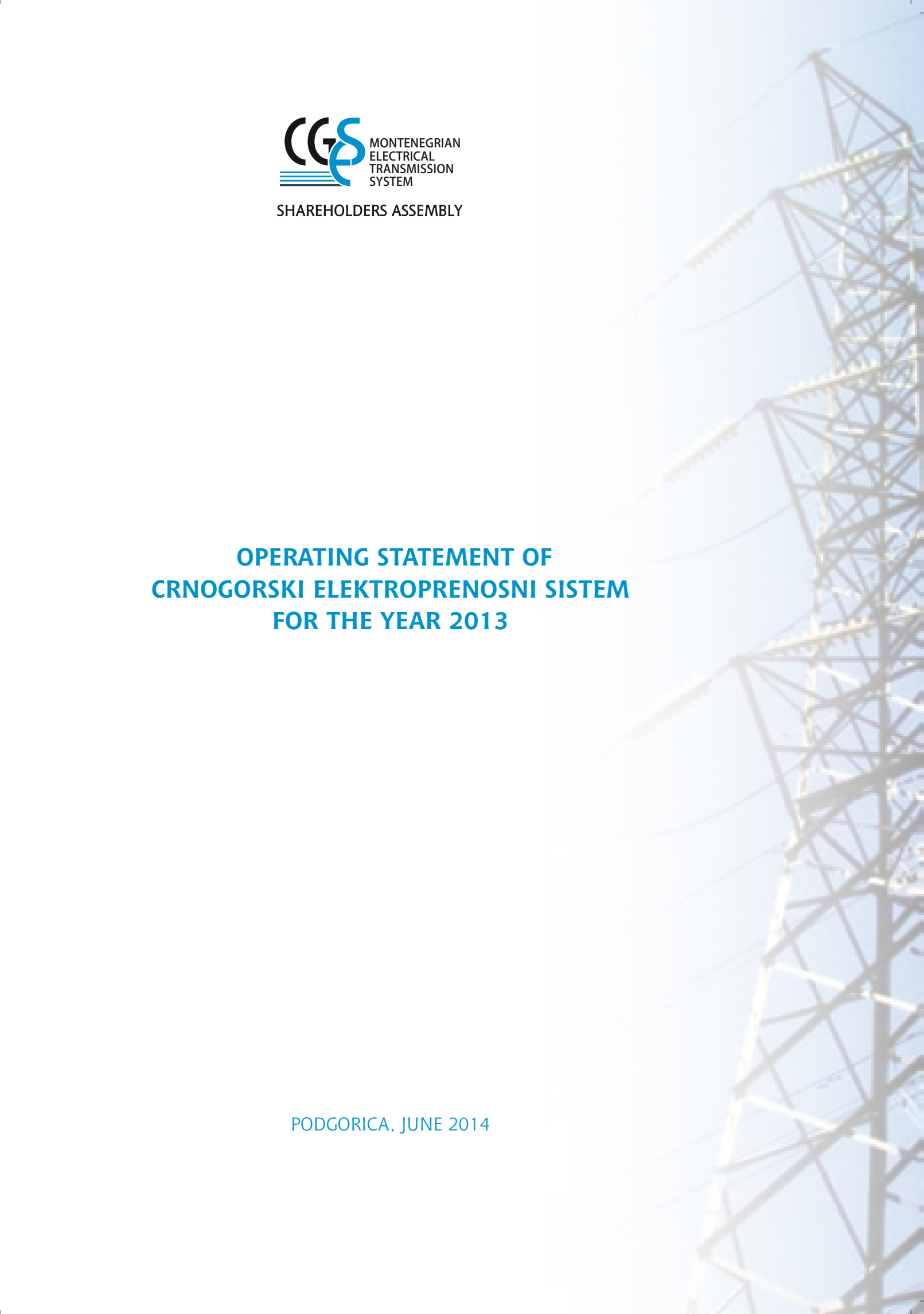
MONTENEGRIAN ELECTRICAL TRANSMISSION SYSTEM

SHAREHOLDERS ASSEMBLY



OPERATING STATEMENT OF CRNOGORSKI ELEKTROPRENOSNI SISTEM FOR THE YEAR 2013

PODGORICA, JUNE 2014

About Statement

Opening Speech of the Chairman of the Board of Directors

Dragan Laketić

We will remember this 2013 business year as a year of challenges which, besides all negative consequences, once more showed the stability of the Company and its capability to handle probably the biggest temptation with which the electric power system of Montenegro was encountered in its history, i.e. irregular operation of Aluminum Plant, the biggest electric energy consumer in the country. In such circumstances, it was very important to maintain the key resources of the Company and proceed with the trend of continuous growth and achievement of excellent business performance. We should be especially proud of our role of an investment-oriented company which, in spite of enormous and most specific problems which we faced in the circumstances of an intensive economic, financial and social crisis, managed to implement investments in the amount of over 16 million euro. In the Plan for the year 2014, we envisaged the implementation of investments amounting to nearly 30 million euro, and in the Five-Year Plan (2014-2018) the amount of over 130 million euro. We believe that the investments we are implementing have a strong impact on business activity in our country and significantly contribute to an increase in employment and GDP, as well as place the company and the State of Montenegro in a position of one of the central actors of electric power developments in South East Europe. We also believe that we showed the stability and strength of CGES through the implementation of the project of submarine interconnection with Italy, being one of the biggest ongoing projects in electric transmission network in Europe. The responsibility for assumed obligations, strategic partner Terna and the State of Montenegro, the signatories of relevant contracts, as well as the responsibility towards a large number of stakeholders in Montenegro and the region, furthermore motivates and obliges us to construct the envisaged facilities within the fixed deadlines.

Our prime objective in the following period is to develop transmission network equally on the entire territory of the State, taking into account the needs of future and existing users and sustainability and environmental acceptability being fully aware of the significance of conservation of the environment, and to this effect as a socially responsible company we will devote more and more attention. One of the top priority objectives in the near future is to improve the relationships with key partners and institutions and find acceptable solutions for residual problems from 2013.

The results of our work in the previous period did not pass unnoticed neither in Montenegro nor in the region. We won the award Leader in the region in the field of electric energy – the best managers and the best company, in the selection of the European Association of Managers – Bosnia and Herzegovina Direction for the selection of the best managers of B&H, South East and Central Europe, based on the candidature by the Montenegrin Chamber of Commerce.

Undoubtedly, the biggest merits for the company's successes belong to its employees, especially to those engaged in the most important works and tasks. A strong investment activity is an opportunity to strengthen professional potentials of the most valuable resource of CGES, i.e. our employees. Therefore, we will continue

Opening Speech by Executive Director

While considering the Operating Statement of CGES for the year 2013, I feel it necessary and consider as my obligation to briefly point out several important moments that marked, each in its own way, this 2013.

Moreover, at the very beginning of my addressing I would like to emphasize that the year 2013 may be characterized as a successful business year for CGES, especially having in mind very unfavorable conditions and adversities which we faced in our work. This statement is especially supported by a physical scope of the fulfillment of set plans which refer to the maintenance works on transmission network such are investment maintenance, revisions, overhauls and successful control of drive mechanisms of electric transmission facilities. Performance of planned maintenance works resulted in a very reliable operating readiness of the transmission network facilities, which finally ensured safe, reliable and efficient power supply of electricity consumers at transmission level, which is the key task of our company.

With reference to the financial result, it is surely positive although still weaker compared with the year 2012 in which the results were achieved above the plan.

Ivan Bulatović

The financial statements for the year 2013 show a profit of € 2,6 mil. ***Revenues*** *amount to € 27,5 mil and mainly refer to transmission network use (€ 22,4 mil) and capacity allocation (€ 3,7 mil).* ***Operating expenses*** *reached € 18,1 mil.* ***Resulting EBITDA*** *(earnings before interest, taxes, depreciation and amortization) is equal to € 9,4 mil with the margin at 34%.*

In this short review while considering the Operating Statement for 2013, I would like to emphasize two moments which in some way distinguished from ordinary, regular and everyday activities of performing planned work tasks. These are nuisances CGES faced with regard to irregular operation of Aluminum Plant Podgorica (KAP) in the period between 01 January and 13 June 2013, particularly after 22 February 2013 when EPCG rejected further provision of system services for the purpose of regulating KAP imbalance due to unregulated relations between these two companies in a longer period. These events significantly disturbed normal functioning and operation of CGES almost in all segments of business operation, which resulted, among other things, in a significant decrease of total revenue.

The second moment which is worth mentioning in this brief review is an interruption in power supply of consumers in the areas of Andrijevica, Plav and Gusinje which lasted seven days due to a severe outage of the 110 kV OHL "Trebješica-Andrijevica" and 110 kV OHL "Andrijevica-Berane". This caused breakage of six towers due to very bad weather conditions (heavy damp snow that stuck on the conductors and earth wires and heavy wind blowing in unfavorable direction).

These two events highly attracted attention of the public, press and electronic media.

With reference to other activities of performing the set plans in the last year, we can say that they were performed for the most part successfully in terms of both maintenance and control of drive mechanisms of electric transmission facilities and fulfillment of planned financial indicators.

The business year 2013 is also characterized by significant investments in construction of new transmission facilities, and such trend, even more intensified, is planned in next years.

The underground 110 kV power cable was laid between substations "Podgorica 3" and "Podgorica 5", whereby both substations are power supplied on both sides at 110 kV voltage. Most works on SS 110/35 kV "Kotor" are completed, and putting into operation of this substation is planned during this year. It is interesting that this is the first substation in transmission system which is implemented in GIS technique.

I must single out the most significant project for CGES, for which in the reporting year funds were provided from KfW and EBRD loan arrangements for the commencement of implementation of the project of interconnection between Italy and Montenegro with submarine cable, specifically for the construction of substation "Lastva" and connecting 400 kV overhead lines from Lastva to Čevo and Pljevlja.

Finally, I should conclude that the business year 2013 cannot be classified among the most successful ones in terms of earned revenue and profit, but this is the year in which plans of maintenance of electric power facilities were realized at a high percentage, which ensured reliable operation and absolutely satisfactory operating readiness of the facilities and investment of significant amount of financial funds in the new investments, i.e. extension of electric transmission capacities.

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Company Profile

Background

Crnogorski elektroprenosni sistem a.d. (CGES) is registered as a stock company with the Central Registry of Business Entities on 27 March 2010, under number 40008972. The core activity of the Company is electricity transmission, under code 3512, for which it has obtained a license from the Energy Regulatory Agency. Share capital of the Company amounts 155.108.283,12 €, 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 development, operation, management and maintenance of the transmission network in Montenegro, all with the aim of ensuring stable operation of electric power system and reliable power transmission from generation facilities to big consumers and distribution network and ensuring electric power exchanges with neighboring electric power systems.

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

Foundation and Development

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

Preparations for this started as early as 8 January 1954 when the company "Dalekovod" - Titograd was founded, whose main activity was the construction of overhead lines and transformer stations. Within its activity, the company performed transmission, transformation of electric energy and maintenance of the facilities of transmission network, covering the southern and central area of the then Socialist Republic of Montenegro. "Elektroprenos - Bijelo Polje" was founded in Bijelo Polje on 1 May 1955 for the northern area of the Republic, which was affiliated to the company "Dalekovod" - Titograd on 15 July 1957. Since its foundation, within this company there existed two units, the first for transmission, transformation of electric energy and maintenance of the facilities of transmission network, and the second for the construction of the transmission network facilities. Since 1961, the company has been operating under a name "Elektrocrnagora" – Titograd. During the integration process at the end of the seventies of the last century, the company became an integral part of Elektroprivreda Crne Gore, which having gone through various organizational forms became a stock company in 1998.

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

Facilities of Electric Power Transmission System

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

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

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

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

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

Electric power lines:			*In Montenegro [km]*	*Total length [km]*
400kV overhead lines	1	*Podgorica 2 – Trebinje*	61,4	89,4
	2	*Podgorica 2 - Ribarevine*	84,7	84,7
	3	*Ribarevine - Kosovo B*	53,1	128,1
	4	*Ribarevine - Pljevlja 2*	54,8	54,8
	5	*Podgorica - Albanija*	29,3	156,0
		TOTAL	283,3	513,0
220kV overhead lines	1	*Perućica - Trebinje*	42,5	63,2
	2	*Podgorica 1- Perućica*	34,1	34,1
	3	*Podgorica 1- Albanija*	21,0	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 Bijelaa)*	23,4	25,0
		TOTAL	337,4	441,0
110kV overhead lines	1	*Podgorica 2 - Virpazar*	30,0	30,0
	2	*Virpazar - Bar*	16,4	16,4
	3	*Podgorica 2 - Budva*	36,0	36,0
	4	*Podgorica 1 - Podgorica 3*	3,9	3,9
	5	*Podgorica 2 - Podgorica 4*	3,5	3,5
	6	*Podgorica1 - Podgorica 2,I*	5,8	5,8
	7	*Podgorica1 - Podgorica 2,II*	5,9	5,9
	8	*Podgorica 2 – Podgorica 5*	11,7	11,7
	9	*Podgorica 2 – Kap,II*	8,0	8,0
	10	*Podgorica 2 - 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	*Podgorica 2 - Cetinje*	31,7	31,7
	16	*Tivat - Herceg Novi*	20,7	20,7
	17	*Herceg Novi - Trebinje*	15,6	30,8
	18	*Perućica - Danilovgrad*	17,1	17,1
	19	*Perućica - Nikšić 3*	13,5	13,5
	20	*Podgorica - Danilovgrad*	17,6	17,6
	21	*Podgorica – EVP Trebešica*	36,1	36,1
	22	*EVP Trebešica - Andrijevica*	30,8	30,8
	23	*Andrijevica - Berane*	17,1	17,1
	24	*Berane - Ribarevine*	21,1	21,1
	25	*Ribarevine - Mojkovac*	14,0	14,0
	26	*Nikšić - Bileća*	55,6	59,5
	27	*Pljevlja 1 – Pljevlja 2*	2,8	2,8
	28	*Totcjep - Vilusi*	0,5	0,5
		TOTAL	509.5	528.6
100kV cables	1	*Podgorica 3 - Podgorica 5*	3,6	3,6
		TOTAL	3,6	3,6
Double Circuit 110kV overhead lines	1	*Perućica – Podgorica vod II i III*	32,6	32,6
	2	*Perućica – Nikšić vod I i II*	12,8	12,8
		TOTAL	45,4	45,4
110kV overhead lines under 35 voltage	1	*Pljevlja 1 - Čajniče*	20,8	25,8
	2	*Nikšić - Brezna*	29,2	29.2
	3	*Pljevlja 1 - Žabljak*	38,5	38,5
	4	*Berane - Rožaje*	24,1	24,1
	5	*Ribarevine - Nedakusi*	8,6	8,6
		TOTAL	121,2	126,2
THE TOTAL AT ALL VOLTAGE LEVELS			1300,4	1657,8

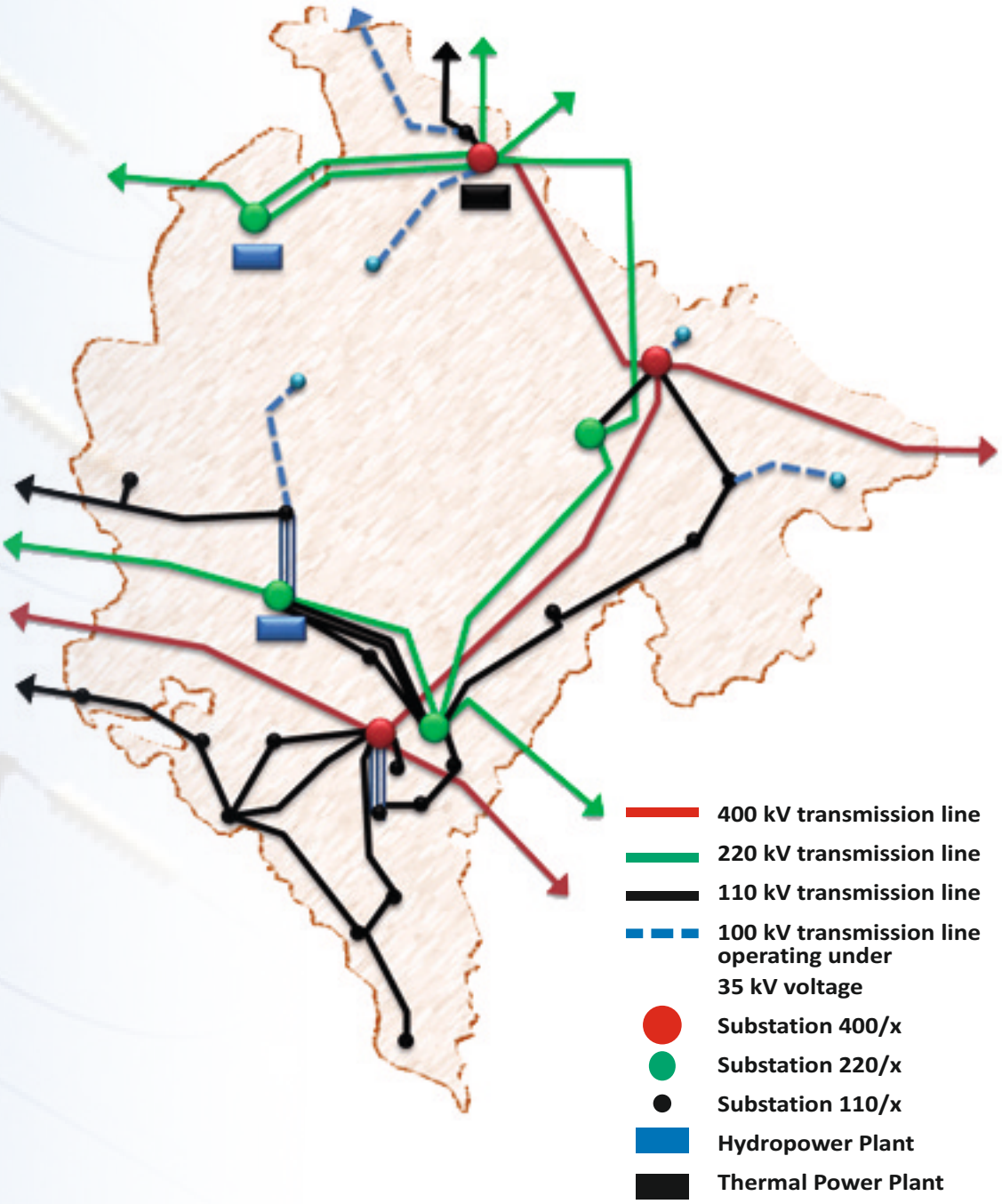


Figure 1 – Electric Transmission System of Montenegro as at 31 December 2013

Transmission Network Users

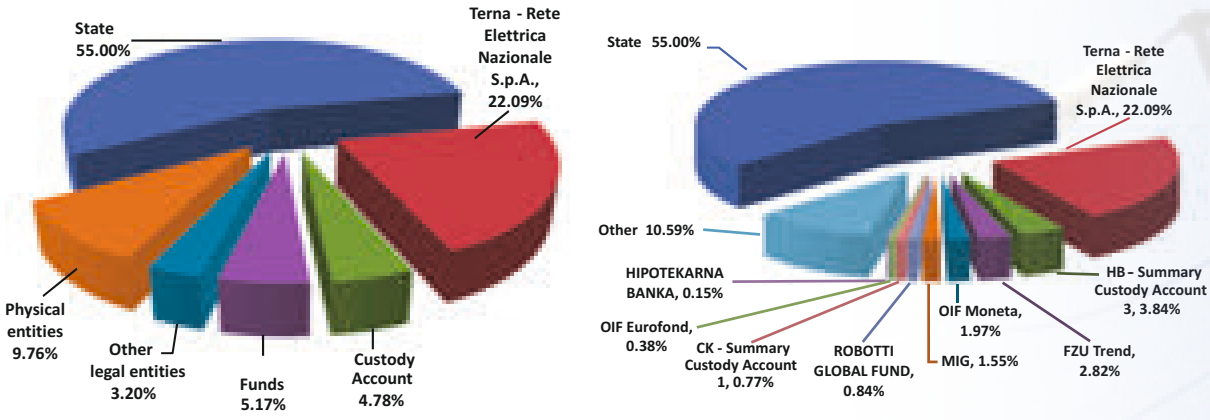
Three big power plants – HPP Perućica, HPP Piva and TPP Pljevlja, as well as three direct consumers – Aluminum Plant Podgorica, Steel Works Nikšić and Railway Infrastructure of Montenegro are connected to the electric transmission network owned by CGES, while owing to this network, around 370.000 of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

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

Shareholders Structure

The total number of Company's shareholders as at 31 December 2013 was 8.169.

The majority owner of Crnogorski elektroprenosni sistem a.d., the state of Montenegro holds 55% of the Company's shares, the Strategic partner of the majority owner, an Italian national transmission operator, the company TERNA Rete Nazionale S.p.a. is owner of 22.0889% shares while on 31 December 2013, natural persons owned 9.76% of shares, joint venture funds owned 5.17% of shares, custody accounts owned 4.78 % of shares, and legal persons owned 3,20% of shares. Ten the biggest owners of the Company hold almost 90% shares.



(a) (b)

Chart 2

a) Shareholders Structure of CGES as on 31 December 2013
b) The share of the top ten shareholders in the shareholders structure as on 31 December 2013

Ownership/ founding interest of CGES in Other Companies

CGES as at 31 December 2013 was the owner of 4140 shares with a nominal value of 51.1292 €, which makes the ownership interest of 1,5290% in the capital of Invest Bank Montenegro AD Podgorica.

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

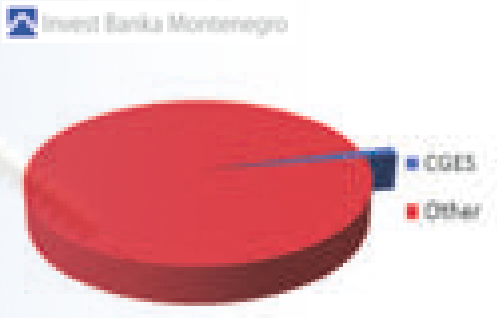


Chart 3 *– Ownership interest of CGES in Invest Bank Montenegro*

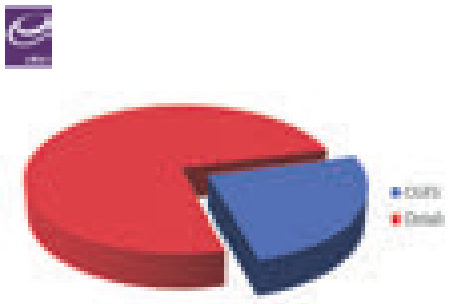


Chart 4 - *Ownership interest of CGES in EKC*

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

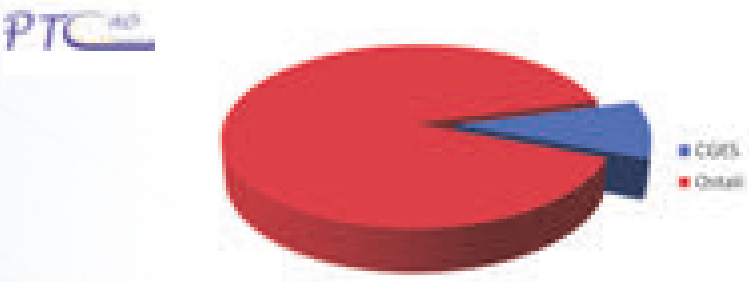


Chart 5 *– Founding interest of CGES in PTC SEE CAO*

CGES is one of ten equal founders who endeavored to accelerate the establishment of the company by providing its support and hospitality in the initial phase of the company formation. PTC SEE CAO until December 2013 fulfilled its task and created the preconditions for the transformation into a fully functional regional auction house, services of which will be initially used by seven regional transmission system operators.

International Cooperation

Membership in ENTSO-E

CGES cooperates with the European transmission system operators within the European network of transmission system operators - ENTSO-E. The aim of cooperation, declared in the Regulation of the European Parliament 714/2009 as of 13 July 2009 is the promotion of establishing and facilitating the functioning of regional and internal electricity market of the European Union, cross-border trade, as well as ensuring optimal management, coordinated operation and appropriate technical development of the European electricity transmission system. Figure 6 – Member States of ENTSO-E

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

Control Block SMM

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

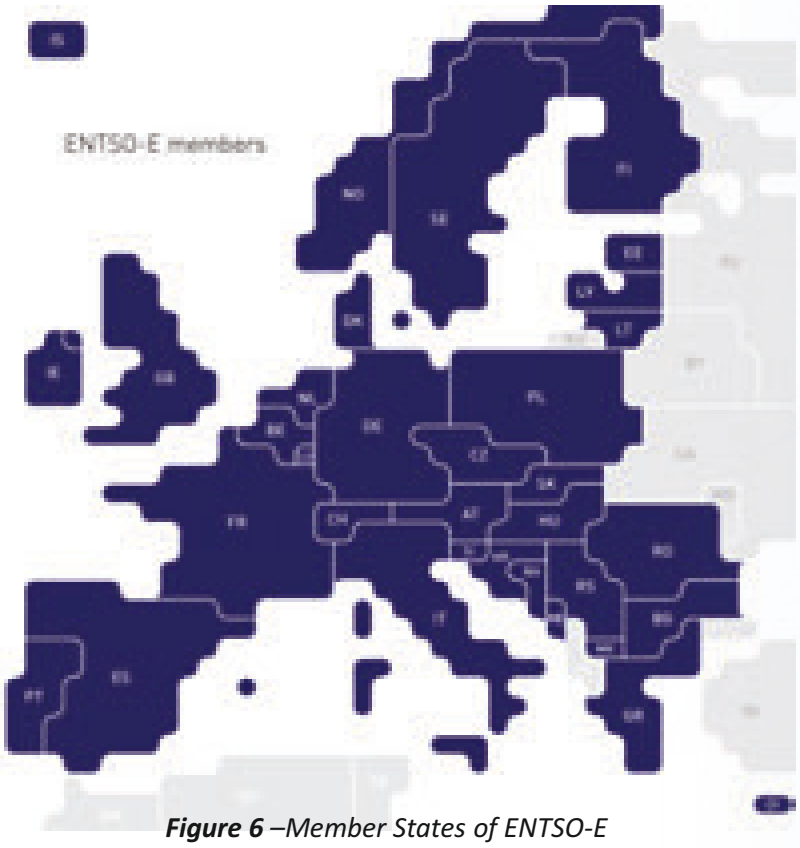


***Figure 6** –Member States of ENTSO-E*

Highlights in 2013

January

1.1.2013.

KAP left without an official electricity supplier

Very beginning of 2013 indicated the arrival of a very challenging period for Crnogorski elektroprenosni sistem AD. The largest consumer of electricity in Montenegro, Aluminum Plant Podgorica (KAP) has entered into a new calendar year without a signed contract on the supply of electricity. Making over 30 % of total electricity consumption in the country such KAP's acting brought the Montenegrin Power Systems into an unprecedented position. Starting with the provisions of the Energy Balance for 2013, which provided for a work of KAP with a power of 84MW, the legal obligation of ensuring balance in the system, the inability of unilateral disconnection of this consumer from the transmission network in accordance with the Opinion of the Inspection Affairs Directorate, as well as information obtained from KAP and other entities responsible for the implementation of the power balance , CGES issued an order for Elektroprivreda Crne Gore, as a sole owner of generating units fitted to provide ancillary services, to engage a power reserve and cover the imbalance of the power system. In this way, the occurred disorder is retained in the framework of Montenegrin power system for 53 days until 22 February 2013.

1.15.2013.

A seven-day interruption of electricity supply in Andrijevica and Plav

''Coincidence and the combination of very specific adverse climatic and meteorological phenomena and effects (temperature, rain, snow, stormy wind...), that power lines are not designed for"[1] on 15 January 2013 at 2:56 p.m. put Crnogorski elektroprenosni sistem AD before a new challenge - due to almost simultaneous failures on 110kV transmission line ''Berane - Andrijevica'' and 110kV ''Andrijevica – Trebešica'', consumption area Andrijevica and Plav, supplied by SS 110/35kV Andrijevica remains without the possibility of power supply. Despite the extraordinary efforts of the competent services of CGES, the affected area remained without electricity supply until 21 January 2013 at 2:09 p.m., when the delivery of electricity was provided by improvised laying of a 2 km long 35kV cable while overcoming the height difference of about 200m and all, for the consumers in too long, but for the maintenance services in a record time of six days upon the failure occurred. Total energy undelivered during 8593 minutes of de-energized stated is estimated at 519 MWh.

An independent commission composed of representatives of relevant institutions, inter alia, in its report, stated: "Having examined the available documentation, particularly reports of reactions and activities of the competent

1- **Operating Report of Expert Commission established to determine the cause of a multi-day interruption of thr consumption area of Andrijevica and Plav** in the period from 15 January 2013 to 21January 2013 – It was composed of Prof. PhD. Sreten Škuletić , - President, (Podgorica ETF), Prof. PhD. Vladan Radulovic (ETF Podgorica), Blagota Novosel, B. Sc. EE. (Inspection Affairs Directorate), Branko Micev, BSc. meth - (HMZ CG), Miodrag Stanisic, Ranko Ređžić, Dejan Dedović and Dragan Perunovic (CGES)

authorities of CGES it is obvious that they, in spite of very adverse weather conditions and a large number of simultaneous occurrence of failures, adequately and promptly took all measures within the limits of available options, in order to rapidly resume the power supply in this area."

February

2.22.2013.

Sent order for shutdown of KAP

Even after 53 days from the beginning of the year, KAP did not provide electricity supplier, nor did it perform registration of its own balancing group or assume the balance responsibility. In this way, the balancing mechanism is brought into a zone free of available financial guarantees, which is why it was not possible to guarantee payments for engagement to the owners of the system of reserves (national balancing mechanism clearly provides that the imbalance in the system shall be covered by the entity that has caused it - in this particular case, KAP, and compensation ultimately receives a provider of ancillary services - in this case EPCG). For this reason, EPCG cut off the availability of system reserves, and the only resource left for balancing system of CGES was regulation of power consumption. In accordance with the Grid Code, CGES on 22 February 2013 submitted to KAP the request for immediate temporary conservation of generating unit of electrolysis, as defined in the previously submitted plan of conservation. Acting in line with the request of CGES would have provided safe temporary stoppage of the plant up to finding solutions to the electricity supply.

Despite multiple urging, the decision on interim conservation was not adopted by the relevant authorities of the factory, so undesirable system imbalance in control area of Montenegro transferred to the European electricity interconnection. Until 31March 2013, the imbalance has coincided with undesired imbalance of the opposite direction occurred in electric power system of Serbia, so the impact on the rest of the interconnection was negligible. In the period from 04 January 2013 until 25 May 2013, unplanned deviations of the system were accumulated in relation to the European electricity interconnection, after which the issue of electricity supply of KAP was resolved. Accumulated compensation program was delivered in accordance with the established procedure, by the new KAP supplier – a company Montenegro Bonus doo Cetinje.

April

4.10.2013.

Tender announced for construction of 400kV OHL ''Lastva – Čevo''

Despite many unexpected problems, work on the implementation of the largest investment project of CGES, and currently of the entire Montenegrin power sector, during the 2013 proceeded at an unabated pace. Thus, on 10 April 2012 a call for proposals was published for the construction of a double circuit and one single 400kV transmission line from the future substation ''Lastva'' to Čevo. The significance of the project is confirmed by the fact that among the two dozen bidders, almost all currently the world's leading companies specialized in the construction of high-voltage transmission lines from Europe and Asia expressed their interest.

May

5.8.2013.

Loan agreements signed

Representatives of Crnogorski elektroprenosni sistem AD signed with the German Development Bank (KfW) and the European Bank for Reconstruction and Development (EBRD) loan contracts to finance construction of associated infrastructure, the project of submarine power interconnection between Montenegro and Italy. Loan arrangement with KfW bank is worth 25 million euros and it is already ensured through the annual budget for 2013, by means of the issuance of sovereign guarantee, while the EBRD loan, in the amount of 60 million, was signed with the option of availability of both of corporate and sovereign format, depending on the budget in the period from 2014 to 2016.

June

6.13.2013.

System Balance Resume

After months of system operation with unusually high unplanned imbalance, the functioning of the control area of Montenegro was brought back to normal, thanks to the engagement of Montenegro Bonus in supplying KAP with electricity. This was the date of beginning of full normalization of operation of the Montenegrin power sector.

6.25.2013.

The IV Ordinary Shareholders Assembly of Crnogorski elektroprenosni sistem AD Podgorica was held

IV ordinary Shareholders Assembly of the Company was held, and no extraordinary assemblies were held. At this session, the Shareholders Assembly adopted the 2012 Operating Statement and 2012 Financial Statement with Auditor's Report. The company showed operating profit in the amount of 6,5 million euro. Members of the Board of Directors and auditor for 2013 were selected.

August

8.5.2013.

Tender announced for construction of 400/110 kV OHL ''Lastva''

With a Call for proposals for construction of substation 400/110kV ''Lastva'' and extension of SS ''Pljevlja'' CGES finally brought investments again into the focus of its activities. Shortly after announcement of the Invitation, the world's largest manufacturers of high voltage equipment expressed their interest for the said tender.

September

9.11.2013.

Misdemeanor charges and the resignation of Executive Director

After months of negotiations, EPCG and CGES signed on 09 May 2013 the Agreement governing mutual relations. This act put an end to the months-long period of disrupted relations between Montenegrin energy undertakings, and prepared the ground for signing the necessary agreements. Nevertheless, the Energy Regulatory Agency announced on 09 November 2013 that it had *brought misdemeanor charges against EPCG and CGES due to, as media shared, "failing to conclude a contract for the provision of system and ancillary services, as well as a*

contract on the use of the transmission system , and contract for purchase of electricity to cover losses in the transmission." This was the immediate reason for the irrevocable resignation of former Executive Director Ljubo Knezevic. Subsequent control over the undertakings found that on 10 January 2013 they had concluded the above contracts, and the Agency submitted relevant documents to the competent authorities to withdraw the request for initiating misdemeanor proceedings.

October

Signed contracts on the operation of energy undertakings

10.1.2013.

After months of negotiations between all the energy undertakings in the country, on 10 January 2013 all necessary contracts governing a regular cooperation between energy undertakings and market participants were finally signed. CGES' consistent insistence on the necessity of a clear definition of the balance responsibility in a lawfully prescribed manner, resulted in the simultaneous signing of a balancing responsibility contract, contract on the provision of system and ancillary services, contract for use of the transmission system, and a contract for purchase of electricity to cover transmission losses.

December

Appointment of a new Executive Director

12.16.2013.

The Board of Directors has unanimously elected Ivan Bulatović, B. Sc. E.E. as Executive Director. Ivan Bulatović until this appointment held the position of a Chief Engineer for protection in CGES, where he started his professional career in 2004.

Signed Contract for construction of ''Lastva''

12.17.2013.

Challenging and in many ways atypical year ended with a very significant event - thanks to the dedicated and highly efficient engagement of the tender commission, CGES has managed to achieve the defined goal during the 2013 and selected a contractor that will build a 400kV substation ''Lastva'', which a converter station of the energy interconnection towards Italy will be connected to. The construction contract was signed on 17 December 2013 with the reputable construction company Siemens, which undertook to implement works in accordance with the terms and conditions required by the tender.

Technical data

Investments

The Report describes the activities carried out in 2013 in order to implement all the proposed investment projects.

It is important to note that the implementation of the Plan was significantly affected by the public procurement procedures, carried out in compliance with the Law on Public Procurement. According to the Law on Public Procurement, it is possible to lodge a complaint at every stage of the public procurement process, which makes the process very complex and time consuming, and ultimately affects the implementation of the Public Procurement Plan.

The difficulties are also reflected in the fact that bidders often make formal errors.

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

400/110 kV SS Lastva, 400 kV OHLs Lastva-Čevo and Čevo-Pljevlja is a contractual obligation arising from the Contract on the Project Coordination for the Construction of the HVAC Submarine Cable Between Montenegro and Italy.

400/110/35 kV SS Lastva involves the construction of 2x300 MVA substations.

The construction of 400 kV Lastva - Čevo comprises the input - output of Lastva to the OHL Podgorica - Trebinje and a section of the 400 kV Lastva - Pljevlja. The 400 kV transmission line from Lastva to Čevo is about 35 km long, with one single circuit and one double circuit line running parallel to it.

The 400 kV transmission line Čevo - Pljevlja is a single circuit line 115 km long, and a double circuit line 40 km long from Brezani to Kosanica. This project will close the internal Montenegrin ring and improve the reliability of the power system.

In 2013 the expropriation process for the part of the project regarding SS Lastva was completed, except for the access road, the tender procedure for the realisation of the "turnkey project "was carried out, and the contract with the best bidder was signed.

As for the part of the project regarding the OHL Lastva – Čevo, in 2013 the Preliminary Design was completed, the UTU were obtained, 90 % of the expropriation process scope was carried out and the Invitation to Tender for the "turnkey project'' was published.

For the part of the project regarding the OHL Čevo – Pljevlja, in 2013 the Preliminary Design was completed, the UTU were obtained, the expropriation process was initiated and the Tender Documents for the "turnkey project'' were prepared.

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

The construction of the 110/35/10 kV SS Kotor (Škaljari) and the 110 kV OHL Tivat - Kotor is a project of connecting one of the most important tourist centers of Montenegro to the transmission network, which would significantly reduce the problem of supplying the consumers of the Municipality of Kotor

with electricity.
The realisation of the project comprises:

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

In 2013 the building permit for the construction of the 110/35 kV SS Kotor was obtained. The planned works on the construction of the 110/35 SS kV Kotor were completed, except for the 110 kV connection cable line, which forms part of a part of the 110 kV OHL Tivat - Kotor project.

The construction of 110 kV Tivat - Kotor is planned for year 2014. The choice of the best bidder for the "turnkey" project was made.

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

This project comprises the construction of the 110/10 kV SS Klicevo on the location of the existing 35/10kV Substation Klicevo and the connection to the 110 kV grid by means of constructing a cable line to the existing 110/35kV Substation Niksic.

In 2013 the route for the 110 kV cable line Klicevo - Niksic was decided, the Elaborate on the expropriation of the land alongside the cable line route was finished, and the urban - technical conditions for the SS and the cable line were obtained. A Tender was published so to select the best bidder for the project of construction of the 35/10 kV SS Klicevo and the 110 kV cable line on a "turnkey basis".

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

In order to modernize the system of protection and management of all substations, the installation of the microprocessor protection and power plant management equipment was planned.

For year 2013, the preparation of technical specifications needed for tendering was planned, as well as the selection of the best bidder, the signing of contracts and the advance payments (for SS Podgorica 2, SS Pljevlja 2 and SS Mojkovac).

In 2013, the tender documents were prepared and the Invitation to Tender was published so as to select the best bidder for the reconstruction works on the protection and management in the 400/110 kV SS Podgorica 2 (110 kV plant), the 400/220/110 kV SS Pljevlja 2 (220 and 110 kV plants) and the 220/110/35 kV SS Mojkovac. The best bidder was chosen and the advance payment was made. The project realisation dynamics is as expected.

5. The Expansion of the 220/110/35kV SS Mojkovac and connection to the 220kV OHL Podgorica 1 – Pljevlja 2 on an input - output principle (IPI 002)

The Project implementation includes:

- The reconstruction of SS Mojkovac – the forming of a bus-bar system and the equipping of two transmission lines, one transformer, one measuring and two section 220 kV bays,
- The construction of a connecting 220 kV transmission line,
- The construction of the point of unravelling of the 110 kV transmission line Bijelo Polje - Mojkovac and Kolasin – Mojkovac, and
- Installation of the 110/35 kV Transformer.

In 2013 the works on the expansion of the 220/110/35 kV Substation and construction of a new 220 kV Transmission Line were completed. The plant was put into trial operation and both the Building Technical Approval and Operating Permit were obtained.

The Plan also envisages that a new transformer bay will be installed in 110/35 kV SS Mojkovac 20 MVA. In 2013 the Preliminary Design was also made.

6. The Telecommunications System Construction Project - extension (IPI 005)

In 2013 the following works were completed:

- Installation of the OPGW cable onto the OHL Ribarevine-Peć 3, up to the border;
- Installation of the OPGW cable onto the 110 kV OHL Bar - Ulcinj;
- Installation of the OPGW cable onto the 110 kV OHL Podgorica - Danilovgrad 1;
- Installation of the OPGW cable onto the 110 kV OHL Podgorica Podgorica 1 - 3;
- Delivery of traction - braking machines;
- Trial operation of the TK equipment for five new joints and of the software reconfiguration of the existing transmission network;
- SAT spare OPGW drums shipped per Annex 1, AFL Telecommunications;
- Final testing of OPGW links;
- Technical inspection of performed works;
- Consultancy services - Reports on the review of test protocols and as-built documentation for implemented OPGW links, being present during the final testing of OPGW links and preparing the final report for the World Bank;

The setting of the OPGW cable onto the 110 kV OHL Podgorica 1 - Podgorica 3 was completed in January 2014.

7. SCADA for the National Dispatch Center with EMS system (including the evaluation of the N- 1 security criteria in real time) - NDC 005b

The project involves the improvement of the current SCADA system in NDC by adding new EMS functions. The improvement makes it possible to perform real time automatic calculation of the N- 1 criterion, thus providing that information on the system's security and possible distortion of the N- 1 criterion is available for the system operator. Calculations shall be performed on a model, and all available real time data from the CGES system, parts of neighboring systems in the observable area and the rest of the external system shall be the equivalent. Other required information shall be evaluated by applying a state estimator that shall also verify the validity of the available data exchanged in real-time. The new system shall be able to perform analyses in a simulation model and load flow calculation automatically at a predetermined interval, or on request.

In 2013, agreements were signed for the delivery of EMS and WAMS systems with the DMS Schneider - ECC consortium (for EMS) and ELPROS - ECC (for WAMS). In October the equipment was delivered and a part of the training was conducted for operating the EMS system. In December the installation and functional testing of the WAMS system were carried out. Four PMU devices were installed: in the 400 kV OHLs Trebinje and Tirana 2 bays in SS Podgorica 2, in the 400 kV OHL bay Peć 3 in SS Ribarevine, and in 220 kV OHL bay Bajina Bašta in SS Pljevlja 2

8. The construction of the 110/10 kV Podgorica 5 with integration into the 110 kV network (IPI 004)

Construction of SS 110/10 kV Podgorica 5 with integration into the 110 kV network is a project that is being implemented in order to resolve the radial supply of SS Podgorica 3 and provide the conditions for the supply of rapidly growing power consumption of Podgorica.

The project is in its final phase and it includes:

- The construction of a new SS 110/10 (20) kV Podgorica 5,
- The construction of a new 110 kV double circuit overhead line Al-Fe Podgorica 5 -KAP I,
- The construction of a 110 kV cable SS Podgorica5 - SS Podgorica 3, with extension of the SS 110/10 kV Podgorica 3.

The works on the construction of the new 110/10 (20) kV SS Podgorica 5, 2x31.5 MVA were completed, and the use permit for the SS Podgorica 5 was obtained.

The works on the construction of a new 110 kV double circuit transmission line - Al - Fe 2x240/40 5 mm ^{2} Podgorica - KAP I, four km long, were completed, and the use permit was obtained.

The works on the construction of a 110 kV XLPE cable - A 1000 mm^2 SS Podgorica 5 - SS

Podgorica 3, three km long, with extension of the 110/35 kV SS Podgorica 3 were completed, and the cable was put into trial operation.

9. Replacement of the 110/10 kV transformer in Podgorica 3 (40 MVA) (IPR 011)

The implementation of the project includes:

- purchasing the 110/ 10 kV transformer, 40 MVA
- preparing the project documentation and
- installing the transformer.

In 2013 the procurement and installation of the 110/10 kV power transformer 40 MVA was performed. The transformer was put into trial operation.

10. Supply and implementation of hardware and software for the FMIS (NDC 002

During the reporting period the following planned activities were brought to completion:

- The following program modules were implemented "General Ledger'', ''Customers" "Supplies'', "Commodity material accounting'' "Fixed Assets'' "Personnel Records'' "Overtime Engagement of Employees", as well as software modules for financial reporting "Data Report'' .
- The existing FMIS software modules were integrated with the program module "Personnel records".
- The tendering procedure for the purchase of servers, storage and back-up system was completed.
- The tender documents for the procurement program module "Financial investments monitoring" were prepared, also for the upgrading of the program module "Data Report" of the ERP4ME software.
- The integration of the existing software modules FMIS with the program module "Personnel records" was performed.
- The implementation of upgrades for the listing of basic resources by means of the bar-code technology was commenced.

11. Reconstruction of the plants (SS Podgorica 2, SS Niksic, SS Podgorica 1) (IPR 002a)

In order to improve the operational readiness of the transmission facilities, continuous investing in replacing the substations equipment is necessary.

The project implementation includes the procurement of equipment, the drafting of project documentation and the installation of equipment in:

- SS Podgorica 2 (replacement of circuit breakers 400 kV);
- SS Nikšić (replacement of disconnectors 110 kV);
- SS Podgorica 1 (replacement of disconnectors 110 and 220 kV).

In SS Podgorica 2 all envisaged works are completed.

In SS Nikšić works are completed.

In 2013 in the 110/ 35 kV SS Niksic all the planned works on the replacement of the 110 kV circuit breaker were completed. In the SS 220/110/35 kV Podgorica 1 the works on replacing the 110 and 220 kV disconnectors were started, and about 20 % of this part of the project was realised.

12. Reconstruction of the plants (SS Bar, SS Herceg Novi, Podgorica TS 4, TS Mojkovac) (IPR 002B)

The project of reconstruction of SS Bar, SS Herceg Novi, SS Podgorica 4 and SS Mojkovac is necessary due to deterioration of the switching equipment, in order to improve the operational safety of the facilities.

The project implementation includes the procurement of equipment, drafting of project documentation and performance of electrical-fitting and construction works in:

- SS 110/35 kV Bar (OHL bay Virpazar and transformer bays T1 and T2),
- SS 110/35 kV Herceg Novi (OHL bay Tivat, connection bay GSS 110 kV and transformer bay T1),
- SS 110/10 kV Podgorica 4 (110 kV bays Podgorica 2 and the spare and transformer bays T1 and T2),
- SS Mojkovac (Transformer bay T1).

In the previous period, the works on the replacement of equipment in the SS 110/35 kV Bar and the SS 110/ 35 kV Herceg Novi were completed.

In 2013 the works on the replacement of equipment in the 110/10 kV SS Podgorica 4 and SS 220/110/35 kV Mojkovac were completed.

13. Other projects

In addition to the aforementioned projects, in 2013 extensive works were done on other investment projects, namely:

- Reconstruction of the OHL 110 kV Budva-Lastva (IPR 009)
- ESS software and hardware (first and second phase) (NDC 003)
- Reconstruction of OHL 110 kV Lastva-Tivat (IPR 010)
- Construction of SS 110/35 kV Žabljak (IPI 013)
- Construction of the OHL 110 kV Virpazar-Ulcinj (IPI 015)
- SS 110/10 kV Podgorica 4 (IPI 021)
- Construction of the SS 110/35 kV Kolašin and putting into operation the 110 kV OHL Mojkovac-Kolašin (IPI 014)
- Construction of the 110 kV OHL Lastva-Kotor (IP0 17)
- Upgrade of hardware and software in the NDC SCADA system (NDC 006)
- Revitalization of 110/35 kV SS Niksic (rehabilitation of the portal concrete) (IPR 001)
- Reconstruction of the SS 110/35 kV Pljevlja 1 (IPI 018)
- Preparatory works for the backup dispatch center in the CGES building (NDC 005A)
- Expansion and improvement of automatic meter reading (AMR) - NDC 008
- 400/110/35 kV SS Brezna (IPI 019)
- Construction of the 110/35/10 kV SS Zeta and 110 kV OHL Podgorica 5 -Golubovci (IPI 011)
- Installation of new 30 MVA transfomers in SS Nikšić (IPR017)
- Supply of batteries for CGES facilities (NDC 007)
- Supply Digitalization synoptic table (NDC 004)
- (IPI 010) Relocation of the 110 kV OHL Niksic - Bileca from Dragova Luka (IPI 010)
- Revitalization of the 110 kV transmission line (equipment replacement and reconstruction) (IPR 004)
- The development, reconstruction, measurement and protection in SS (IPR 012)
- Other investments (IPD 003)
- Reconstruction of 400 kV plants in SS Pljevlja 2 and SS Ribarevine (IPR 013)
- 400 kV OHL Pljevlja 2-Višegrad and 400 kV OHL Pljevlja 2-Bajina Bašta (IPI009)
- 400/110/35 kV SS Brezna (IPI 019)

Maintenance

In accordance with the Plan for 2013, as well as the standards and technical regulations on the transmission network power plants maintenance, in the reporting period the Department for Substation Maintenance committed a total of 347 work orders, 89 of which were interventions.

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

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

Voltage Level	REVIEW planned/realised	OVERHAUL planned/realised
400 kV	4/4	0/0
220 kV	7/7	0/0
110 kV	18/18	11/11
35 kV	13/13	14/14

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

The following HV equipment was replaced:

- 35 kV Switch Units 6
- 110 kV Switch Units 2
- 220 kV Surge Arrester Units 3
- 110 kV Surge Arrester Units 24
- 220 kV Measuring Power Transformer Units 2
- 110 kV Measuring Current Transformer Units 27
- 110 kV Measuring Current Transformer Units 3
- 40 MVA Power Transformer Unit 1

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

- Breakdown repair by means of replacing half of the 400 kV switch in the OHL bay Kosovo in the 400/110/35 kV SS Ribarevine
- Breakdown repair by means of replacing the 35 kV switch in the OHL cell Petrovac in 110/ 35 kV SS Bar
- Replacement of the damaged 110 kV NMTR in the 110 kV OHL bay Trebješica in SS 220/110/35 kV Podgorica 1
- Replacement of the damaged 110 kV NMTR in the 110 kV bay Podgorica 2 in 110/ 35 kV SS Budva
- Breakdown repair by means of replacing the 35 kV switch in the OHL cell Velika Plaza in the 110/ 35 kV SS Ulcinj
- Breakdown repair by means of replacing the 35 kV switch in the T2 transformer cell 63 MVA in SS 110/ 35 kV Budva
- Revitalization of the 110/35 kV 20 MVA backup transformer isolation system in 110/ 35 kV SS Budva
- Revitalization of the 110/35 kV 20 MVA backup transformer isolation system in 220/110/35 kV SS Podgorica 1

Table 3 shows the implementation of the Check-up Revision and Overhaul Plan of the Department for OHL Maintenance for 2013.

Table 3: Summary of the activities of the Department for OHL Maintenance in 2013.

Voltage Level	REVIEW planned/realised	OVERHAUL planned/realised
400 kV	10/10	2/2
220 kV	14/14	2/2
2x110 kV	4/4	0/0
110 kV	52/48	8/8
110(35) kV	10/10	2/2
Σ	90/86	14/14

Upon making the aforementioned line check-ups, all the defects which were estimated to be likely to affect the transmission lines operational safety were eliminated. The cutting down of forests in the transmission line route was completed in the planned scope. The OHL 110 kV Bar - Budva was protected against corrosion (with the exception of the sections from 36A to tower no. 57 which had already been protected), as well as 220 kV OHL Podgorica - Pljevlja (sections Lješnica – Velika Župa), and the protective activity was initiated on one tower of the 110 (35) transmission line Pljevlja - Zabljak.

During this period, the Department for OHL Maintenance made 39 emergency interventions.

The employees of the said Department also performed a range of other activities, such as works on primary connections in substations, leading or participating in several investment projects, choosing the route, revising the project documentation, supervising the execution of the works etc.

Three overhauls of the 110 kV transmission line Podgorica - EVP Trebješica, the 110 kV EVP Trebješica - Andrijevica and OHL 110 (35) Pljevlja - Zabljak were also carried out, although they were not envisaged by the Investment and Current Maintenance Plan. The exceptional overhauls of these lines were made because of serious failures that occurred during the winter season.

During the year in question, the repair of broken down towers nos. 53, 54 and 55 of the 110 kV OHL Bar – Budva was performed as well.

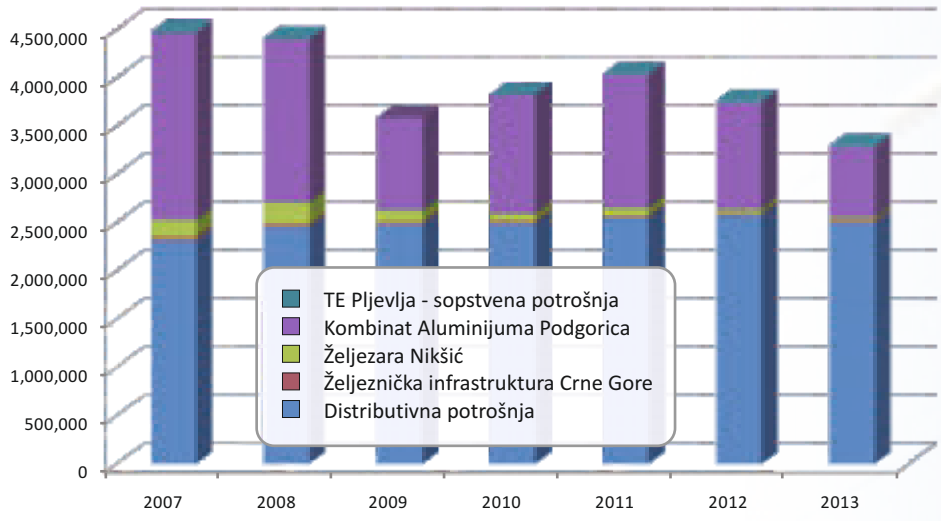
System Administration

The energy transferred in order to satisfy the needs of the consumers within the country

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

This phenomenon not only indicates that some changes occurred in the Montenegrin industry energy demands, but it has a very negative impact on the implementation of the transmission system operators' regulatory allowed revenue. In fact, since the advent of the declining trend in consumption, the decline has grown so much from year to year, that it has outrun by far the financial statement predictions, so the regulatory allowed revenue has been collected for many years now with a one year delay, i.e. only after applying the appropriate corrections.

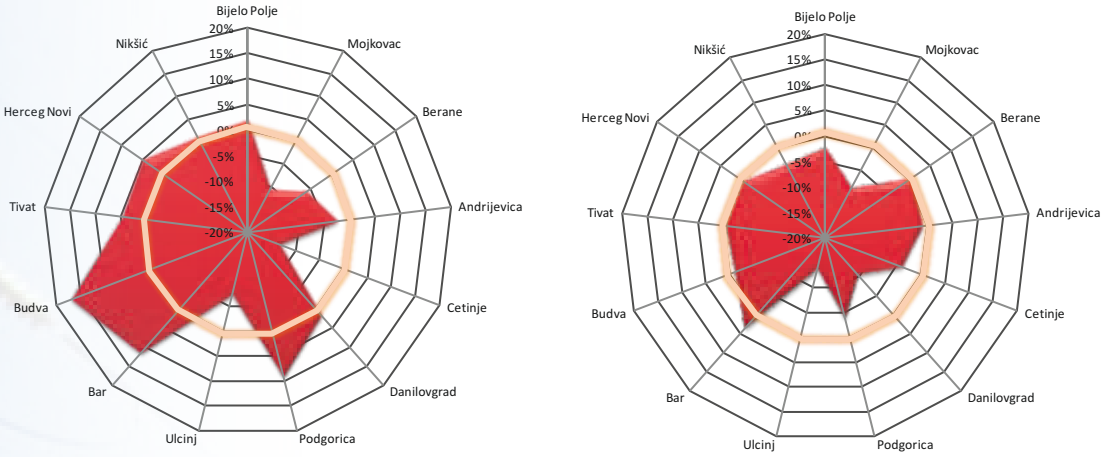
Furthermore, the transmission system has been, since the eighties of the last century, planned and developed for significantly higher consumption regimes within the country, and today's level of domestic consumption makes the 400kV transmission lines in particular under-loaded, and brings them into operation modes so far below their "natural power" which enables optimal exploitation from the standpoint of minimum technical losses in transmission.



Graph 7 - The trend of electricity consumption in Montenegro from 2007 to 2013

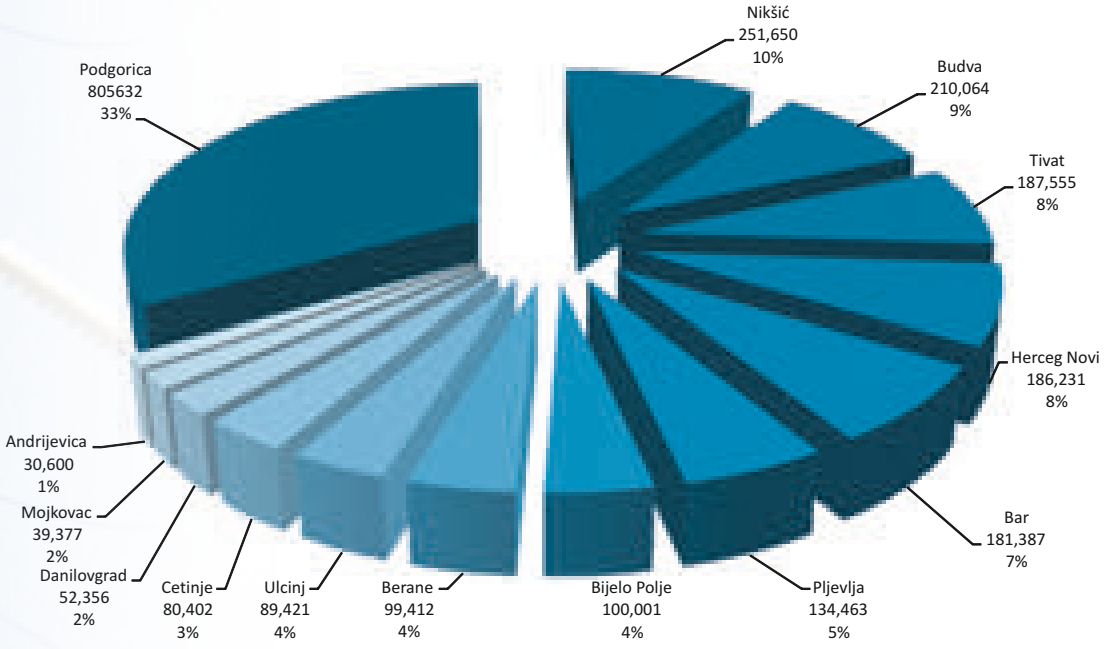
That which has been until recently an encouraging trend of growth of distributive consumption, increasing, as for Montenegro, from 2.31TWh in 2007 to 2.57TWh in 2012 (11 %) +, did not continue in 2013, but declined so to reach 2.50TWh .

From the distributive consumption perspective, it is interesting to notice the changes by regions, in comparison with year 2012.



Graph 8 - Allocation of the consumption distribution gradient by municipalities for the period from 2007 to 2013 (left) and from 2012 to 2013 (right)

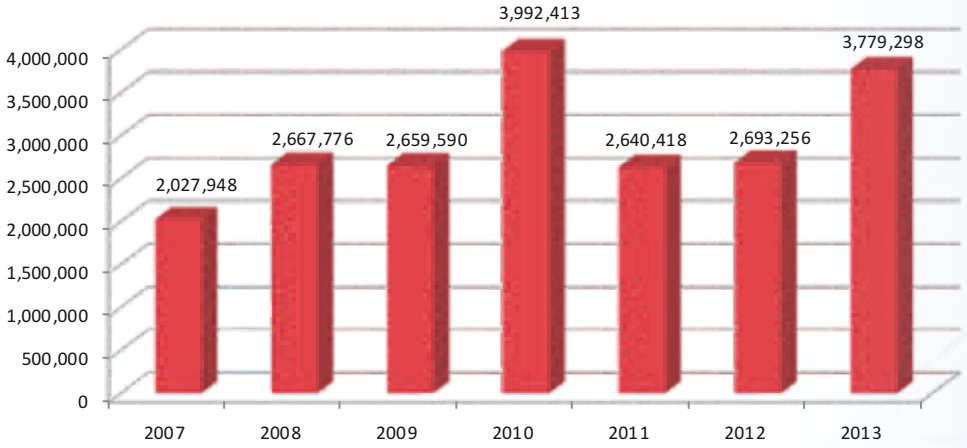
This arrangement indicates a multi-year dislocation trend for the center of consumption, which moves closer towards Podgorica and the coastal municipalities, while both on the multi-annual and annual level there is an extremely discouraging trend of consumption decrease in most of the northern municipalities, with the exception of Bijelo Polje.



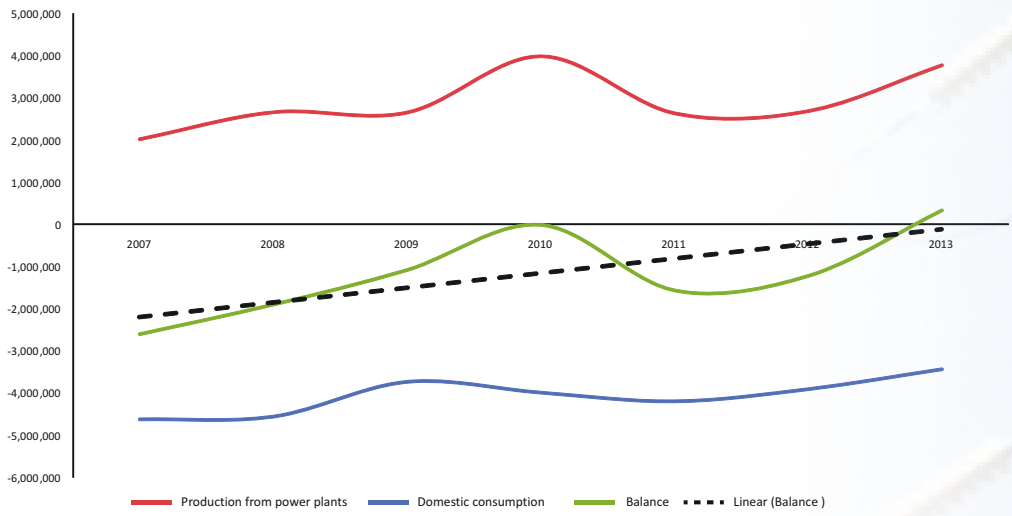
Graph 9 - Electricity transferred to the distribution network in 2013 in MWh by municipalities

The energy transferred to satisfy the domestic production needs

Due to favorable hydrology, year 2013 is deemed to have been a year of very good power production of the power plants connected to the transmission system. Compared to the previous five-year average, the 3.78TWh production increased by 28.9 %. [Graph. 10]



Graph 10 – The power generation of the plants in Montenegro from 2007 to 2013 in MWh

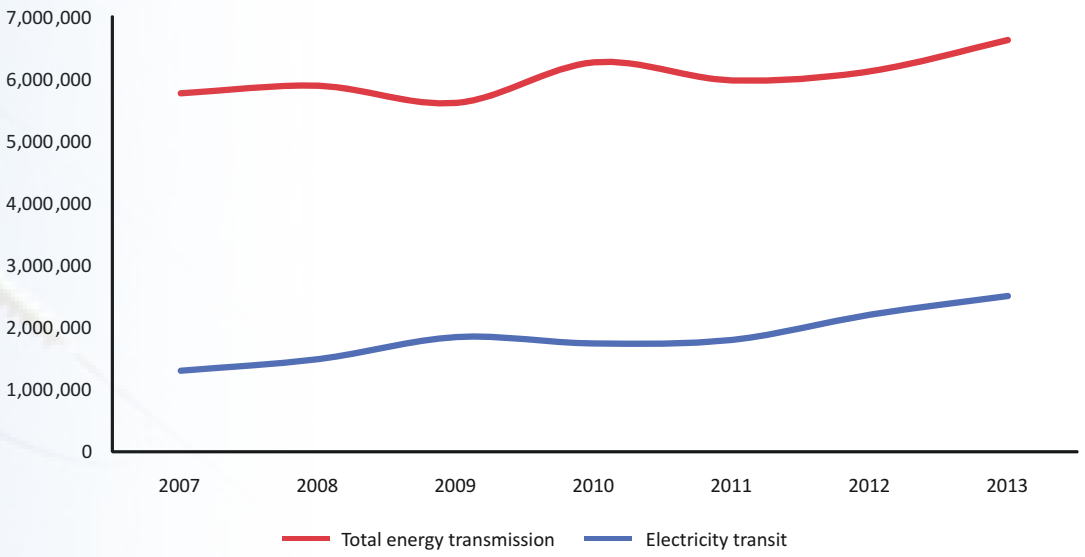


Graph 11 - The balance of generation and consumption of electricity in Montenegro from 2007 to 2013 in MWh

Because of both the multiannual falling trend of consumption in the country, and the very good hydrology, in 2013 the many decades long electricity deficit tendency was reversed. The domestic production exceeded the total domestic consumption by 0.34TWh, i.e. 9 % of generated power was left over after the domestic consumption needs were satisfied.

The energy transited through the Montenegrin power system

Despite the alarming declining trend of domestic consumption, as well as the fact that the change in total output still predominantly depends on hydrology, the total energy whose transfer is enabled by CGES is growing from year to year. In 2013 the transited electricity increased by 13.7 % compared to the previous year, i.e. by 37.7 % compared to the average of the previous five-year period. The total transit of 2.49TWh was for the first time almost equal to the distributive consumption. Therefore, instead of 22.5 % of the total energy transferred in 2007, the transit in 2013 accounted for 37.6 %.



Graph 12 - Trend of total electricity transmitted and transit of the power transmission network of Montenegro in the period between 2007 and 2013 in MWh

Long-term growth trend of the total amount of transited energy, but also the related revenue growth, are the best confirmation of the adequacy of already implemented investments as well as the current ones, aimed at connecting with neighboring power transmission systems, in order to facilitate the transit.

The quality of delivery and cancellation of cross-border capacities

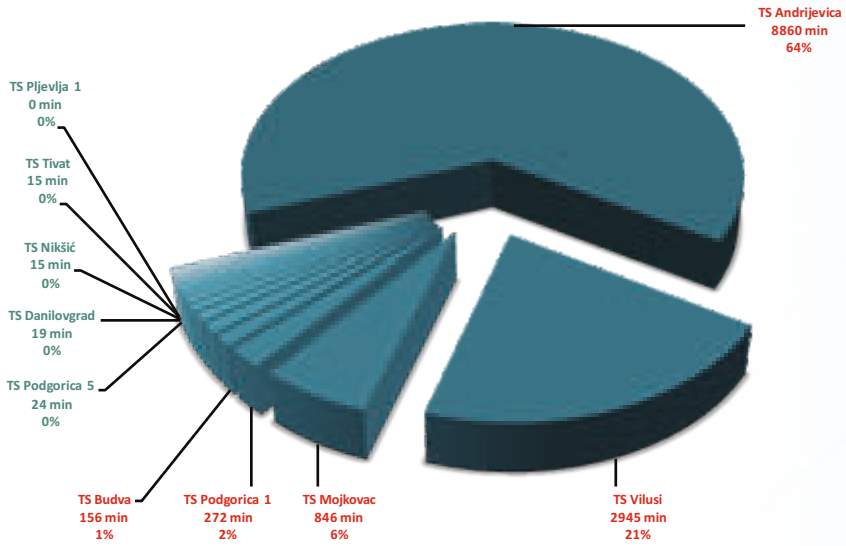
This year was characterized by one of the longest supply interruption - unavailability of the transmission network in the SS 110/35kV Andrijevica, the duration of which was 8593 minutes (5 days, 23 hours and 13 minutes). According to the Joint Commission, which was to determine the cause of the interruption, "it is the general and unequivocal conclusion that the immediate cause of the problems that arose in this period was a coincidence and combination of very specific adverse climatic and meteorological phenomena and effects (temperature, rain, snow, strong wind...), which those power lines were not designed for. Apart from that, the Commission considers that there are other negative factors that, to some extent, contributed to this development of the situation. This applies above all to those established facts: the weakening of the structure due to the lack of alienated elements or great age and deterioration of the rope structure, suspension equipment etc., which might have then made it possible for the unfavorable weather conditions to come to the fore, but it is this weakening actually that was primarily and predominantly responsible for the resulting situation."

Total undelivered energy from transmission network towards consumers in Montenegro during 2013 is assessed at

0.0323%

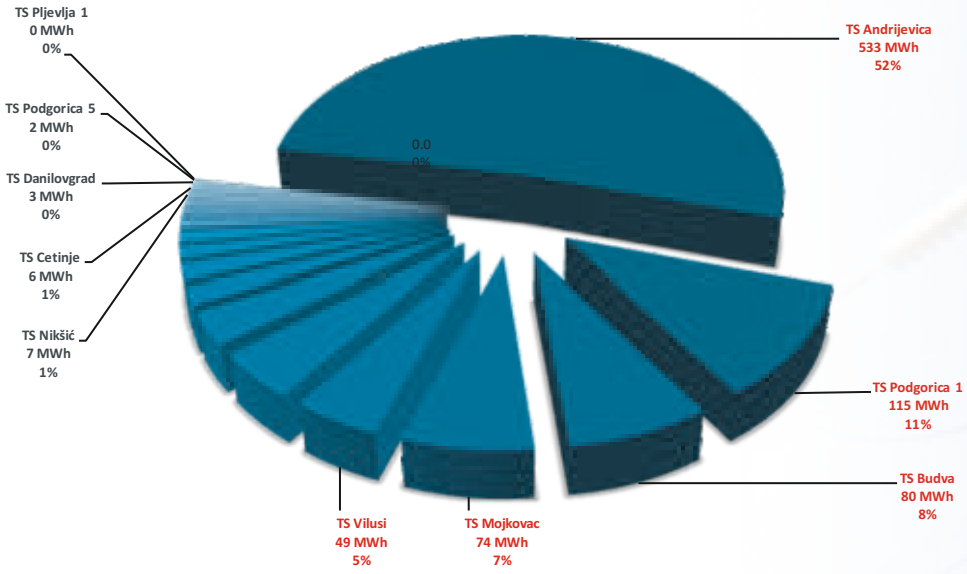
from transmitted 3.292.810 MWh

The total of 99.9677 % of the domestic electricity consumption needs was transferred that year. From the perspective of the distribution of consumption, the least reliable distributing operators' energy delivery points for 2013 were 11/35kV SS Andrijevica with a total duration of supply interruption of 8860 minutes, 110/35SS Vilusi, with a 2945 minute interruption, 220/110/35 SS kV Mojkovac, with 846 minutes, SS 220/110/35 kV Podgorica 1 with 272 minutes, and SS Budva, with 156 minutes, while the most reliable points were 110/35kV SS Pljevlja 1, where there were no supply interruptions, 110/35 kV Substation Tivat and 110/35kV Niksic with a 15-minute break, and the 110/ 35 kV SS Danilovgrad and 110/10 kV SS Podgorica 5, with a total interruption duration of 24 minutes.



Graph 13 - The duration of power interruption in 2013 per connection points in minutes and percentage of participation in the overall duration of the power interruption

When it comes to the amount of unserved energy, again the distributing operators' least reliable energy delivery point is the 110/35kV Substation Andrijevica, with an estimated 533MWh or 52 % of the total unserved energy, whereas the most reliable, apart from SS Pljevlja 1, would be SS Podgorica 5, Danilovgrad, Cetinje and Niksic, all of them with less than 10MWh unserved energy in 2013.



Graph 14 - Evaluation of undelivered electricity per points of connection during 2013 in MWh and the proportional share in the total estimated undelivered ENS energy

During the subject year there were no cancellations of cross-border transmission capacity due to unavailability of interconnection lines, and so the availability of the allocated capacity was 100 %, although the total cross-border transfer of power reached a multi-year peak of 6.342.945MWh, which compared to the average of the previous five-year period which was 5,258,326 MWh represents an increase of 21 %.

AlloAllocated cross-border transmission capacity was available to user at

100 %

Social Responsibility

It is understood that the level of social responsibility is shown not only through the relation towards the main activity which is of particular significance and whose efficient performance represents one of the main prerequisites for development of a modern society, but through the contributions and support to the development of various living segments of the environment in which CGES is operating. This includes support to a series of cultural and sports events, various initiatives in the field of education, vocational and scientific training, publishing technical publications, etc.

Specificity in many aspects of CGES' operations in 2013, which imposed a need for focusing on addressing the issues relating to the performance of CGES' main activity, influenced the reduced activity of CGES in this respect. Such activity of CGES in 2013 cannot and will not influence the relation towards and support to further development of society.

Regulatory Framework

Pursuant to the Energy Law, Energy Policy, activities envisaged for the improvement of regulatory process and professional independence of the Energy Regulatory Agency, and with the aim of developing a clear and predictable regulatory framework and encouraging the region in investing in the energy sector of Montenegro, the Agency adopted Rules for Changing Electricity Tariffs in its Decision no. 13/1506-2 dated 16 May 2013. This document is one of the key drivers in determining corrections of regulatory allowed revenue of Montenegrin Electricity Transmission Operator during the second regulatory year, i.e. for the period between 01 August 2013 and 31 July 2014 and onwards.

These Rules govern the manner, terms and procedure of:

- setting temporary tariffs by the Energy Regulatory Agency;
- changing regulatory allowed revenue, prices and tariffs during a regulatory year at the request of an energy undertaking or at the initiative of the Agency, i.e. at the end of the regulatory year at the initiative of the Agency.

Besides, these Rules provide that due to changes in some parameters such are investments in the energy sector and significant changes in the uncontrollable or partially controllable costs by energy undertakings, regulatory allowed revenue of energy undertakings, prices and tariffs can change during the validity period. To this effect, at its session held on 02 July 2013 the Agency Board adopted Decision on setting the amount of correction of regulatory allowed revenue and prices for transmission system operator no. 13/1713-19 for corrections occurred in the first regulatory year.

In addition, on 14 November 2013 the Agency adopted Decision setting a regulatory chart of accounts for energy undertakings with the obligation of its application starting from 01 January 2014. This document is Appendix to the Rulebook on chart of accounts and contents of the accounts in the chart of accounts for companies and other legal entities (Official Gazette of Montenegro no. 5/11). The purpose of adoption of this document is to make the approval process of regulatory allowed revenue by the Agency more efficient and simpler for

enforcement, having all necessary data on costs and revenues of entities in one place, and at the same time to provide support to energy undertakings in setting regulatory allowed revenue and prices, in accordance with the established Methodologies for energy undertakings. The established regulatory chart of accounts consists of special accounts representing a necessary framework for calculation of total justified operating costs, depreciation and return on assets, as well as a difference compared to the approved and realized revenue and costs, prepared according to the current regulatory accounting practice of the Agency.

In addition to these Rules and regulatory chart of accounts, the Agency adopted a Methodology on amendments to the Methodology for setting regulatory revenue and prices for use of electricity transmission system (Official Gazette of Montenegro no. 61/13). To this effect, at its session held on 31 December 2013 the Agency Board adopted Decision no. 13/3629 on setting charges and prices paid by electricity producers to Crnogorski elektroprenosni sistem AD for use of transmission system for the period between 01 January 2014 and 31 July 2015. Under this Decision, an annual charge for covering part of costs for using transmission capacity is set for the electricity producers connected to transmission system. The price paid by a producer is set according to the realized volumes of produced electricity in a monthly billing period during invoicing services of transmission capacity use to the electricity producers connected to transmission system.

After approval and application of the subject documents by the Energy Regulatory Agency, a process of making a more stable and clearer regulatory framework in the field of energy was encircled.

Corporative Management

Shareholders Assembly

The Shareholders Assembly is the highest body of a Company. The competences of the Assembly are provided for by the Companies Act and By-Laws of the Company. The shareholders, through the assembly, pass and approve the most important normative, property, election and status decisions. During 2013, a general annual Shareholders Assembly was held, while there were no extraordinary sessions.

Board of Directors

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

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

The CGES Board of Directors consists of seven members. At IV general Shareholders Assembly held on 25 June 2013, the Board was abandoned by Elisabetta Colacchia after expiry of her term of office, and Giuseppe Saporano was appointed instead. All other members were re-appointed and the Board now consists of Dragan Laketić (Chairman), Vesna Bracanović (member), Milica Raičević (member), Radivoje Brajović (member) acting as representatives of the State and Luigi de Francisci (Vice Chairman), Giuseppe Saporano (member) acting as representatives of Terna Rete Elettrica Nazionale S.p.A. and Bojša Šotra (member) who is a representative of the Joint Venture Fund.

During 2013, the Board held seven sessions and one declaration without holding a meeting. The Agenda of the Board mainly consisted of the issues which were envisaged by the Work Plan of the Board of Directors as regular activities of the Board in every business year. In addition to these issues, other current issues during the business year were discussed as well. Among significant activities of the Board there was a discussion about conditions in the electric energy system of Montenegro caused by the operation regime of KAP since 01 January 2013.

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

Članovima Odbora za rad u Odboru, pripada naknada utvrđena Odlukom Skupštine akcionara, a koja je usklađena sa relevantnim propisima i uredbama nadležnih državnih organa.

Secretary of the Company

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

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

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

Menagement

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

Executive Director

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

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

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

The position of Executive Director was held by Ljubo Knežević by 16 December 2013, when the Board of Directors noted his irrevocable resignation and appointed Ivan Bulatović as the Executive Director.

Management Team

The Board of Directors determines the management structure and appoints management member at the proposal of the Executive Director. During 2013, the positions of directors within the Company were held by Branko Stojković, Director of National Dispatch Centre, Branko Knežević, Director of Elektroprenos, Valerio Mastragostino, Director of Department for Financial Planning, Control and Investor Relations and Kosa Špadijer, Director of Economic Department, who abandoned the Company due to retirement.

Transparency of Business Operations

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

Salaries and Remunerations

Salaries

During 2013, the remunerations of members of the Board of Directors and salaries of the management team were kept at the level according to the Conclusions of Government of Montenegro made at the session held on 25 April 2012. A basic monthly salary of the Chairman of the Board of Directors was limited to 3.5 average monthly salaries in the country, the Executive Director's to 3 average monthly salaries in the country and other management members' to 2.5 average monthly salaries in the country.

Remunerations

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

Short-Term and Long-Term Bonuses

The Company's policy of salaries and remunerations did not cover payment of bonuses for the year 2012 although it was concluded with a record net profit in the amount of 6.6 million €.

Other Benefits

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

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

Organizational Structure

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

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

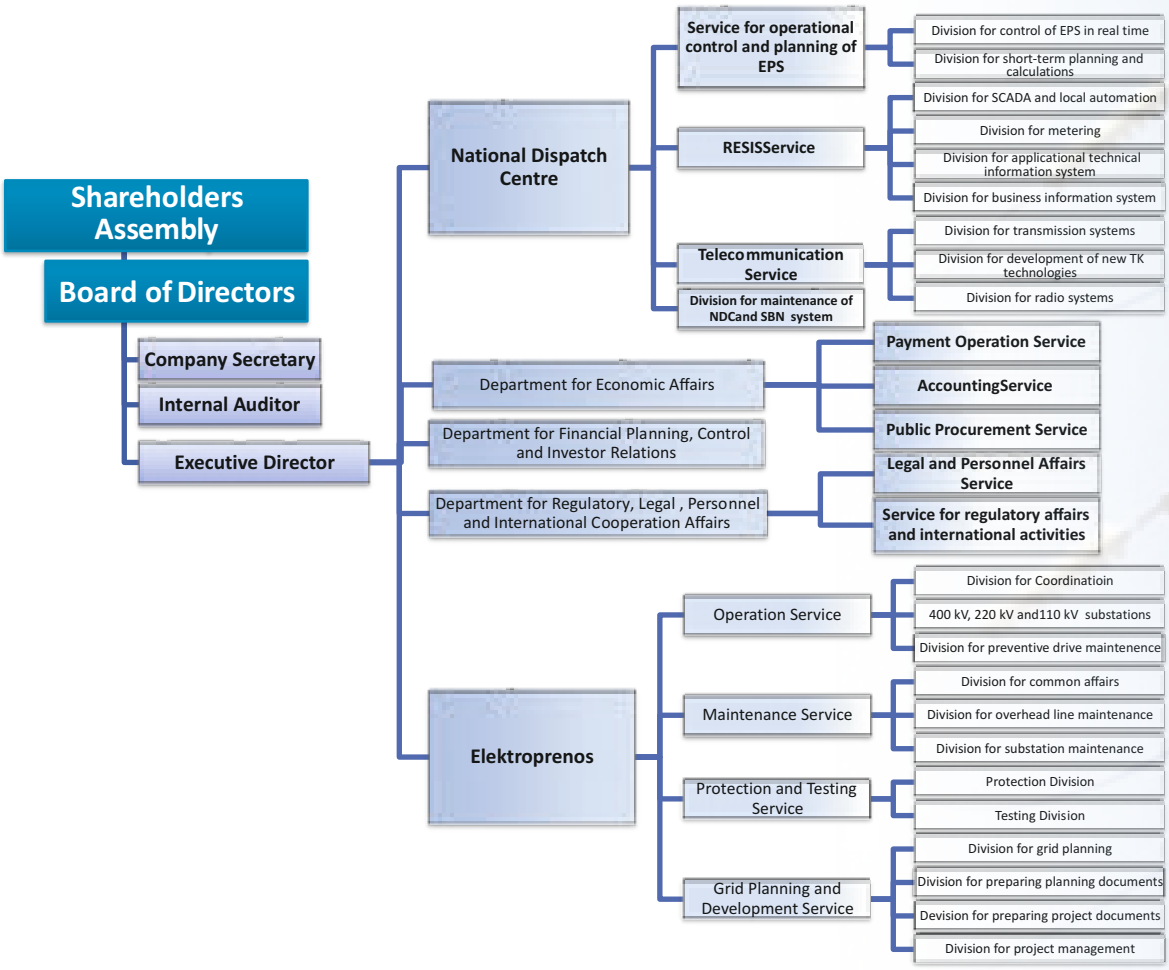


Figure 15: CGES Organizational Chart

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

Human Resorces

According to the audit report as at 31 December 2013, a total number of employees in CGES was 329. Out of the total number of employees, 300 employees have permanent employment contracts, 27 have fixed-term employment contracts, and there are two trainees employed with the Company. An average age of the employees in CGES is 45.5 years of age.***Figure 16** – Value of assets per employee [€]*In preparing itself for the impplementation of a very intensive investment ciclus, the Company endeavors to pay special attention to the improvement of human resources. Taking into account the significance of energy sector for a total employment rate in the country, on the one hand, and the necessity of optimization of all costs of the core activity, including salary costs, on the other, the Company is improving from year to year one of the main efficiency parameters, i.e. the value of assets per employee in the Company. Therefore, the intention is to achieve an optimal compromise between contributions to the national standard through controlled hiring of new employees and optimization of regulated costs.

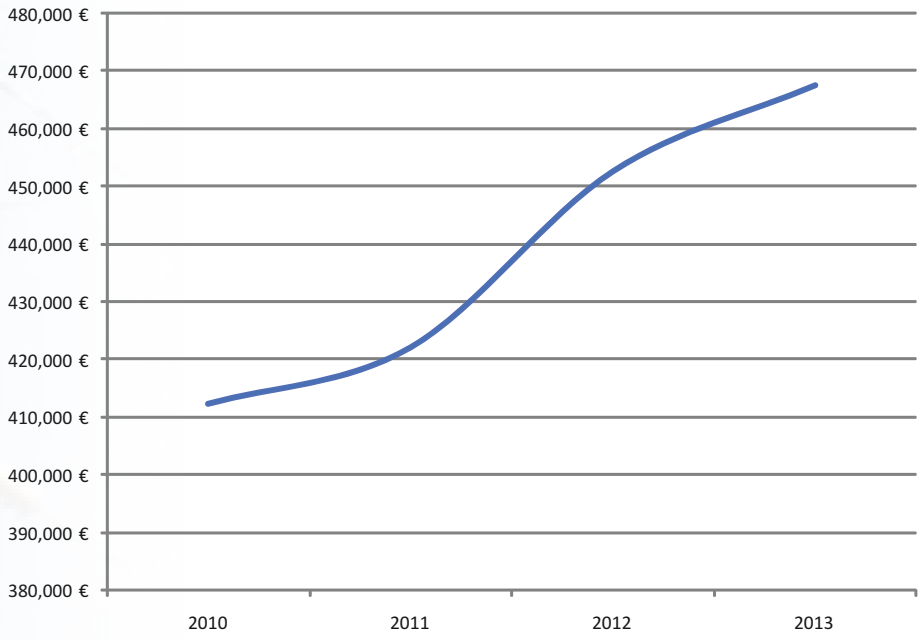


***Figure 16** – Value of assets per employee [€]*

Financial Report

Profit and Loss

The financial statements for year 2013 show a profit of 2,6 Mln €. **Revenues** amount to 27,5 Mln €, mainly related to transmission network use (16,8 Mln €), transmission losses (5,6 Mln €) and capacity allocation (3,7 Mln €). **Operating expenses** reached 18,1 Mil €, mainly due to personnel costs (6,3 Mil €) and transmission losses (5,2 Mil €). Resulting **EBITDA** (earnings before interest, taxes and depreciation and amortization) is equal to 9,4 Mil € and the margin reaches 34%

P&L

€ mil	EoY 2013 A	EoY 2012	EoY 2013 Actual vs. EoY 2012 previous year
Transmission revenues	16.8	16.5	0.3
Transmission losses	5.6	5.4	0.2
Congestion revenues	3.7	7.0	(3.3)
Other revenues	1.4	1.1	0.4
Total Revenues	**27.5**	**30.0**	**(2.5)**
Personnel	6.3	6.7	(0.3)
Material	0.3	0.3	0.0
Third party	1.5	1.3	0.2
Other	4.7	3.1	1.6
Transmission losses	5.2	5.9	(0.7)
Opex total	**18.1**	**17.3**	**0.8**
EBITDA	**9.4**	**12.7**	**(3.3)**
Margin	34%	42%	-8%
D&A	6.7	6.6	0.1
EBIT	**2.7**	**6.1**	**(3.4)**
Margin	10%	20%	-10%
Net Financial expenses	**(0.2)**	**(1.1)**	**0.9**
Financial revenues	0.8	1.7	(0.9)
Financial expenses	0.5	0.6	(0.2)
Financial expenses new loans	0.1	-	0.1
EBT	**3.0**	**7.2**	**(4.2)**
Taxes	0.3	0.7	(0.3)
Net income	**2.6**	**6.5**	**(3.9)**

Revenues from transmission network use:
Higher than previous year (+0,3 Mln €) due to net effect of lower network use mainly by KAP compensated by higher tariff.

Revenue side of transmission losses:
Higher than previous year (+0,2 Mln €) due to higher revenue from international ITC mechanism, which are predominantly a consequence of higher total transit energy through the system.

Congestion revenues:
Lower than previous year: -3,3 Mln €, mainly due to lower fees for congestion management on the Albanian border, which are a consequence of favorable hydrology in the region due to which a total demand for capacity on the border towards Albania is lower.

Other revenues:
Higher than previous year (+0,4 Mln €), mainly due to ancillary services (+0,2 Mln €) not performed in the previous year and other pass-through items.

Operating expenses +0,8 Mln €, mainly due to differences in the following items:

Services (third party services and other costs) : +1,8 Mln € mainly due to:

- Impairment of receivables from domestic customers (KAP) (+1,9 Mln €)
- System services (+0,4 Mln €)
- Higher security service costs (+0,3 Mln €)

compensated by legal provisions (-1,0 Mln €).

Transmission losses: lower than previous year (-0,7 Mln €) due to lower domestic and transit losses.

Personnel cost: lower than previous year: -0,3 Mln € due to performed capitalization of salaries in 2013 (0,4 mln €).

Headcount at the end of year 2013 is 330 FTE (+16 FTE vs. 2012).

Depreciation and amortization is in line with the previous year.

Net financial expenses
Higher net charges vs previous year (+0,9 Mln €) mainly due to lower financial revenues.

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

Actual vs. previous year (-0,3 Mln €) due to lower EBT.

Balance Sheet

Net Financial Debt

Actual vs. end of 2012: +15,9 Mln € mainly due to lower position on cash (significant increase of receivables due to missing payments of EPCG and Montenegro Bonus).

Existing Loans

Actual vs. previous year: higher +6,6 Mln € mainly due to withdrawals (6,8 Mln €) regarding KfW loan for SS Lastva signed in 2013.

Balance sheet			
€ mil	EoY 2013	EoY 2012	2013 vs.2012 previous year
Assets	153.8	143.9	9.9
Working Capital	6.7	(1.5)	8.2
Funds	2.1	2.3	(0.2)
Net Invested Capital	**158.4**	**140.2**	**18.2**
Shareholders Equity	167.6	165.2	2.4
Paid in capital	155.1	155.1	-
Reserve	(0.0)	0.3	(0.3)
Carried forward results	12.5	9.9	2.6
Net income from previous period	9.9	6.8	3.0
Current net income	2.6	6.6	(3.9)
Dividends		(3.5)	3.5
Net Debt	(9.2)	(25.0)	15.9
Cash	37.7	46.9	(9.2)
Long term debt	28.5	21.9	6.6
Existing debt	21.7	21.9	(0.1)
Associated infrastructure financing	6.8	-	6.8
Total liabilities	**158.4**	**140.2**	**18.2**

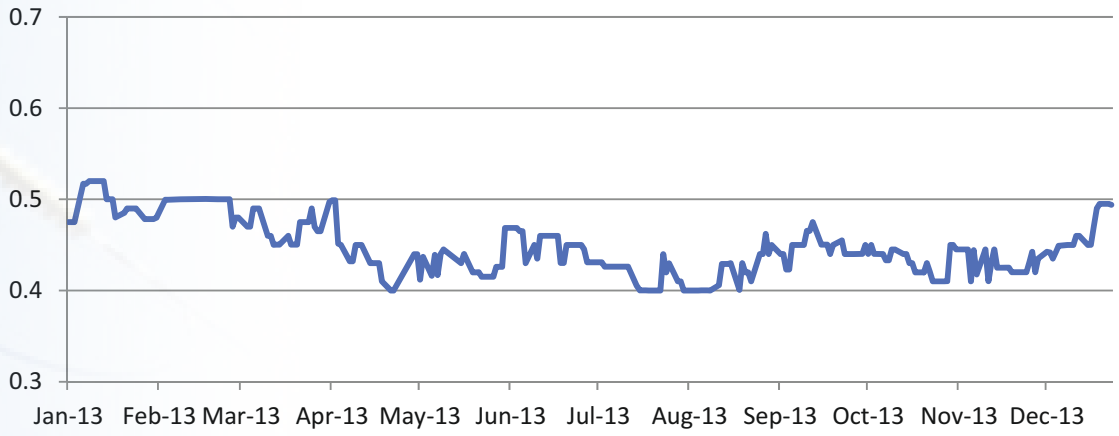
Cash Flow

CASH FLOW		
€ mil	EoY 2013	EoY 2012
Initial balance	**46.9**	**48.1**
EBIT	2.7	6.1
Taxes	(0.3)	(0.7)
Depreciation	6.7	6.6
Delta WC	(8.2)	2.4
Delta funds	(0.2)	0.8
Delta capex	(17.2)	(12.9)
Terna CG expropriations	0.7	(0.8)
Total Operational	**(15.8)**	**1.5**
Financial expenses	0.2	1.1
Current Debt increase/amortization	(0.1)	(0.5)
Associated infrastructure financing	6.8	-
Total Financial	**6.9**	**0.5**
Capital injection/reduction	(0.3)	0.3
Dividends	-	(3.5)
Remittances/injection	**(0.3)**	**(3.3)**
Total	**(9.2)**	**(1.2)**
Final Balance	**37.7**	**46.9**

Membership on Stock Exchange and CGES Shares

Since May 7, 2012, CGES shares have been 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 is fulfilling in terms of a corporate culture.

A development trend of CGES shares is shown in graph below, indicating the value of € 0.494 per share as at 31 December 2013.



Graph 16: Value of shares of Crnogorski elektroprenosni sistem AD on the Montenegro Stock Exchange in the period between 1 January 2013 and 31 December 2013