CRNOGORSKI ELEKTROPRENOSNI SISTEM

OPERATING STATEMENT

OF CRNOGORSKI ELEKTROPRENOSNI SISTEM FOR THE YEAR 2015

Podgorica, June 2016.

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An attachment to the report

Dragan Laketić
Chairman of Board of Directors

Foreword by the Chairman of Board of Directors

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

I am pleased to have the opportunity to address you again with regard to the 2015 operating statement. I am grateful and pleased to share with you the satisfaction of having one more successful business year behind us, in which we have maintained a growth trend in certain key operation segments despite many challenges. Our corporate data shows a constant increase in the value of fixed asset, stable value of implemented investments at the annual level and positive business results. I would like to emphasize that, thanks to permanent growth, we have managed to maintain the implementation of investments at the annual level in amount of 15 to 20 M€ compared to the previous 3 to 6 M€. In addition to significant activities in respect of our major project, i.e. submarine interconnection with Italy, the annual implementation of plan of investments in internal network in recent years exceeds 90% of the plan, which we are particularly proud of. Effect of investments may inter alia be noted though permanent decrease in the total undelivered electric energy from transmission network towards consumers in Montenegro, which was estimated at less than 0,02 % of the total energy transmitted in 2015. Operational efficiency measured through the value of assets per employee has increased year after year.

Development activities are aimed at further reinforcements of transmission network to achieve better interconnectivity with regional or European transmission grid, so that we can face demanding requirements of new trends in electricity market and meet performances of future smart networks. On the other hand, we are endeavouring to make investment plans acceptable in respect of impacts on tariffs for transmission network use having a restrictive approach.

Results motivate us to actively work on improving business operation to promptly reach the level of the most developed European transmission system operators in understanding relations with users, stakeholders and institutions, with the aim of meeting the obligation in respect of public interest and ensuring attractive remunerations for shareholders.

Key conditions for attaining our plans are, first of all, a stable and predictable regulatory framework and urgent solving of the problem of very high demands of the largest transmission network users and our most important partners. The quality of such partnership undermined for so long not only affects the successfulness of companies but is a decisive factor in the successful operation of electric power system of Montenegro Gore. I hope and strongly believe that we will finally reconcile our positions, thereby relieving our companies of a multiyear ballast that seriously jeopardize business operation and endanger the fulfilment of our long-term objectives. Institutional support and assistance of all stakeholders are again a necessary prerequisite for success, particularly having in mind the complexity and specific characteristic of problems we are solving, taking account of the obligation to create conditions for successful performance of public interest activities for the benefit and to the satisfaction of our users, shareholders and owners of energy undertakings.

An active role of a member of the association of transmission system operators ENTSO-e and commitment to the objectives of South East Europe Energy Community are still at the top of our priorities.

Finally, I would like to thank members of the Board of Directors, management team, all employees, and those who were our employees until recently and now pensioners, for cooperation and contribution they have made in achieving CGES business objectives.

Ivan Bulatović
Executive Director

Foreword by the Executive Director

Dear CGES shareholders, I feel the need from the management side to refer to you with the 2015 Operating Statement. Another successful year is behind us, a year in which we continued the trend of positive business results and year that is distinguished by a high percentage of implementation of planned investments.

We intensified works on construction of capital infrastructure project, submarine interconnection of electric power systems of Montenegro and Italy. Works are performed in Lastva, on sections of future 400 kV overhead lines "Lastva –Čevo" and "Čevo- Pljevlja". As for the internal grid, we managed to finish in the previous year relocation of 110 kV OHL from the region of Dragova Luka, we completed the project of extension of SS "Mojkovac" by entry into operation of the second 110/35 kV transformer, projects of refurbishment of 110 kV overhead lines, as well as a series of other projects that have brought to enhancement of quality and safety of supply of consumers.

It is not less important to mention that maintenance and management of the system was on satisfactory level, whereby ensuring full operational readiness of OHLs and SSs, resulting in a record low percentage of not supplied electricity to consumers. Moreover, allocated cross-border capacity was 100% available during the entire year.

Numbers for 2015 show the following: net income was achieved in the amount of four million EUR, revenues were 32.5 million, usage of transmission network 18, and compensation for losses 5.3 million EUR, while allocations of capacity amounted to 5.5 million EUR.

Operating expenses are 20.1 million EUR, cost of salaries 6.5 million EUR, and regarding transmission losses they amounted to - 5.3 million EUR.

EBITDA (earnings before interests, tax, depreciation and amortisation) amounts to 12.4, with margin of 38%.

In accordance with one of its strategic commitments – promotion of application of European standards in the field of electricity transmission, CGES founded last year, in cooperation of transmission operators of Bosnia and Serbia, the Regional Security Coordination Centre, whose task is to allow to its founders application of modern standards in the field of security coordination, in accordance with international recommendations and regulations. Moreover, a successfully coordinated allocation of capacity was performed in the beginning of 2015, which was interpreted by the Energy Community Secretariat as a significant step towards application of European principles, and Montenegro took the leading position regarding transparent allocation of cross-border capacities in the Energy Community.

Crnogorski elektroprenosni sistem was recognised also in 2015 as a socially responsible company. We continued cooperation with the best sports clubs, we helped institutions, individuals, vulnerable persons who needed help. I shall remind about two very significant donations, to the Clinical Centre of Montenegro, i.e. Institute for Children's Diseases, Department of paediatrics, as well as donations to the Resource Centre from Kotor.

Please note that we recognised also in 2015 the need to hire young personnel through the program of professional training of the Government of Montenegro and in that manner gave a chance to young and capable people to be part of this Company.

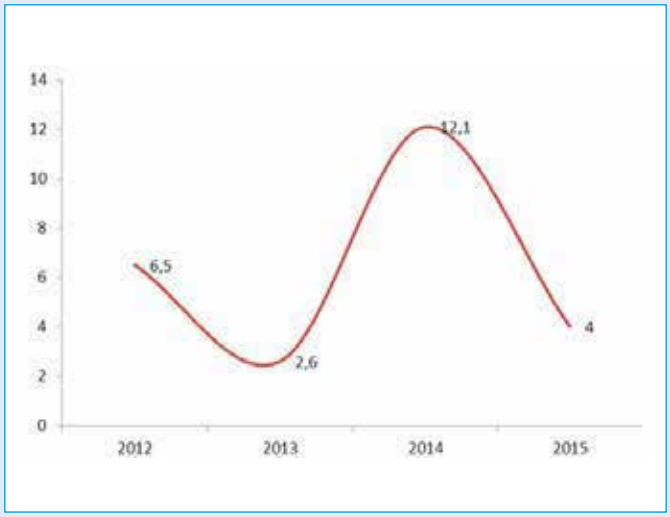
Unfortunately, also in the previous year we were compelled to undertake activities on collection of receivables from previous years, which significantly aggravates operation of this electric power company and endangers the operation of the entire electric power system.

CONTENT

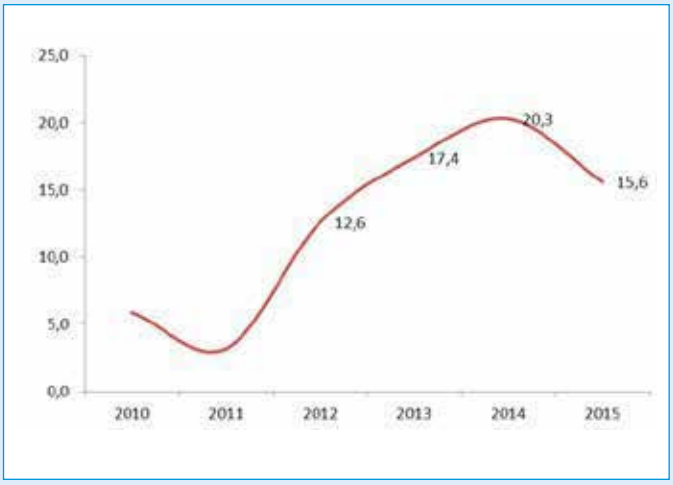
2015 Key Indicators

Corporative data

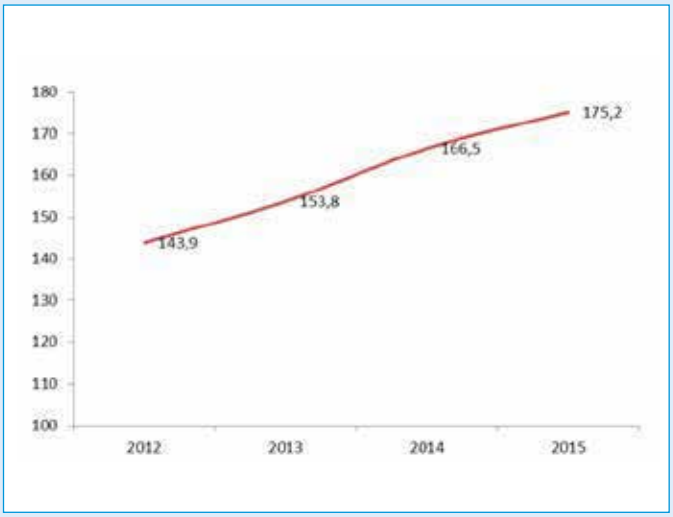
Seventh year in a row, from the spin-off into a separate legal entity, CGES achieved a positive business result – by showing a net profit in the amount of 4 million euros.



From once standing 3 to 6 million euros, by permanent increase, we stabilized ourselves an annual amount of implemented investments beetwen 15 and 20 million euros.



Increasing standards and demand of end electricity consumers in terms of quality can be achieved only by a permanent system development. The value of CGES assets reached 175.2 million euros in 2015.



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 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 euro, divided into 146.176.876 shares with the nominal value of 1,0611 euro.

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

As a national electricity transmission operator, CGES is responsible for the development, operation, control 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 large consumers and distribution network, as well as ensuring electric power exchanges with neighboring electric power systems.

Besides 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 110/35kV "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. 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.

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 power sector. At the first ordinary Sahreholder's 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 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, as well as transformers of transmission ratio 110/x kV. The transmission line network of electricity transmission system consists of:

- 30 overhead lines 110 kV total length 551,3 km; one 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.

Such constructed 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 ownership of Crnogorski elektroprenosni sistem AD.

Electric power lines:			In Montenegro [km]	Total length [km]
400kV overhead lines	1	Podgorica2 – Trebinje	61,4	89,4
	2	Podgorica2-Ribarevine	84,7	84,7
	3	Ribarevine-Peć	53,1	79,2
	4	Ribarevine - Pljevlja2	54,8	54,8
	5	Podgorica - Tirana	29,3	126
		TOTAL	283,3	513
220kV overhead lines	1	Perućica-Trebinje	42,5	63,2
	2	Podgorica 1-Perućica	34,1	34,1
	3	Podgorica 1-Albanija	21	65,6
	4	Podgorica 1 - Mojkovac	72,1	72,1
	4	Mojkovac -Pljevlja 2*	44,9	81,6
	6	Piva-Pljevlja 264	49,8	49,8
	7	Piva-Pljevlja 265	49,6	49,6
	8	Piva-Lukavica(Buk Bijela)	23,4	25
		TOTAL	337,4	441
110kV overhead lines	1	Podgorica 2-Virpazar	30	30
	2	Virpazar - Bar	16,4	16,4
	3	Podgorica 2-Budva	36	36
	4	Podgorica 1-Podgorica 3	3,9	3,9
	5	Podgorica 2- Podgorica 4	3,5	3,5
	6	Podgorica1-Podgorica2,I	5,8	5,8
	7	Podgorica1-Podgorica2,II	5,9	5,9
	8	Podgorica 2 – Podgorica5	11,7	11,7
	9	Podgorica 2 – Kap,II	8	8
	10	Podgorica2-KAP, III	8,1	8,1
	11	Bar - Budva	33,4	33,4
	12	Bar - Ulcinj	23,7	23,7
	13	Budva - Cetinje	11,5	11,5
	14	Budva-Tivat	17,4	17,4
	15	Podgorica2-Cetinje	31,7	31,7
	16	Tivat-Herceg Novi	20,7	20,7
	17	Herceg Novi- Trebinje	15,6	30,8
	18	Perućica - Danilovgrad	17,1	17,1
	19	Perućica-Nikšić 3	13,5	13,5
	20	Podgorica - Danilovgrad	17,6	17,6
	21	Podgorica – EVP Trebešica	36,1	36,1
	22	EVP Trebešica -Andrijevica	30,8	30,8
	23	Andrijevica- Berane	17,1	17,1
	24	Berane - Ribarevine	21,1	21,1
	25	Ribarevine - Mojkovac	14	14
	26	Nikšić - Bileća	55,6	59,5
	27	Pljevlja 1 – Pljevlja 2	2,8	2,8
	28	T-off - Vilusi	0,5	0,5
		TOTAL	505.9	525,0
100kV cables	1	Podgorica 3 - Podgorica 5	3,6	3,6
		TOTAL	3,6	3,6
double circuit 110kV overhead lines	1	Perućica – Podgorica vod II i III	32,6	32,6
	2	Perućica – Nikšić vod I i II	12,8	12,8
		TOTAL	45,4	45,4
110kV overhead lines under 35kV voltage	1	Pljevlja 1 - Čajniče	20,8	25,8
	2	Nikšić - Brezna	29,2	29.2
	3	Pljevlja 1 - Žabljak	38,5	38,5
	4	Berane - Rožaje	24,1	24,1
	5	Ribarevine - Nedakusi	8,6	8,6
		TOTAL	121,2	126,2
THE TOTAL AT ALL VOLTAGE LEVELS			**1342,2**	**1699,6**

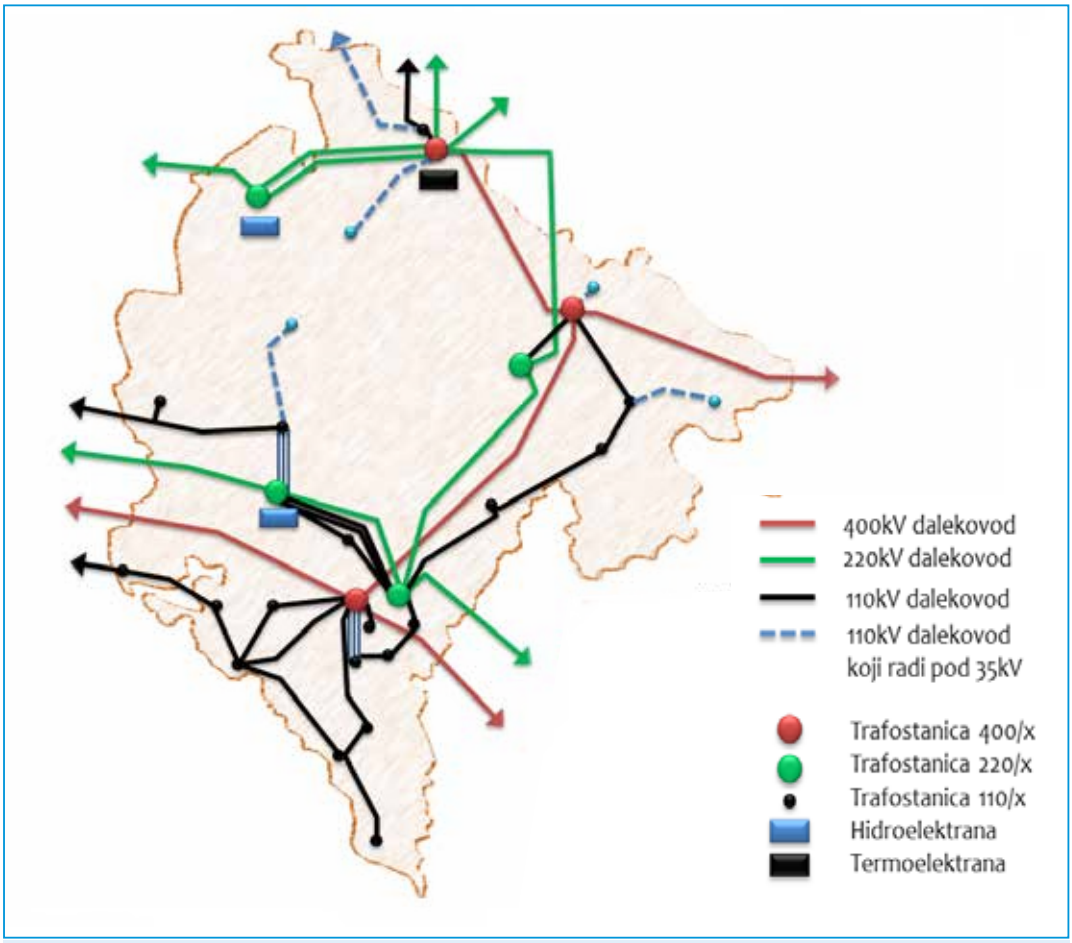


Figure 1: Electricity transmission system of Montenegro as of 31 December 2015

Supply of consumers is performed from 19 substations 110/35kV, which with two system SS 400/x (Podgorica 2 and Pljevlja 2) represent with overhead lines the transmission network of Montenegro.

No	Substation	No. of SS	power (MVA) with number of transformers	∑ MVA
1	TS 400/220/110kV „Pljevlja 2	3	925(2x400+125)	925
2	TS 400/110kV „Podgorica2	2	600 (300+300)	600
3	TS 220/110/35kV „Podgorica 1	4	426 (2x150+2x63)	426
4	TS 400/110/35kV „Bijelo Polje	3	150+40 (2x20)	190
5	TS 220/110/35kV „Mojkovac	3	170 (150+2x20)	190
6	TS 110/35kV „Niksić"	4	219 (30+63+2x63)	219
7	TS 110/35kV „Herceg Novi"	2	80 (2x40)	80
8	TS 110/35KV „Tivat"	2	83 (20+63)	83
9	TS 110/35kV „Budva"	2	103 (40+63)	103
10	TS 110/35kV „Bar"	2	80 (40+40)	80
11	TS 110/35kV „Ulcinj"	2	51.5 (20+31.5)	51,5
12	TS 110/35kV „Cetinje"	2	51.5 (20+31.5)	51,5
13	TS 110/35kV „Danilovgrad"	1	20	20
14	TS 110/10kV „Podgorica 3"	2	71,5 (40+31,5)	71,5
15	TS 110/10kV „Podgorica 4"	2	80 (2x40)	80
16	TS 110/35KV „Berane"	2	40 (2x20)	40
17	TS 110/35kV „Pljevlja 1"	2	60 (20+40)	60
18	TS 110/35kV „Vilusi"	1	10	10
19	TS 110/35kV „Andrijevica"	2	10+20	30
20	TS 110/35kV „Virpazar"	2	40 (20+20)	40
21	TS 110/10kV „Podgorica V"	2	63 (31.5+31.5)	63
UKUPNO:		46		3413,5

Table 2: Substations in ownership of Crnogorski elektroprenosni sistem AD

Transmission System 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 around 360.000 registered distribution consumers are indirectly supplied with electric power through distribution network.

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

Ownership Structure

The total number of Company's shareholders as at 31 December 2015 was 7,635. The majority owner of Crnogorski elektroprenosni sistem a.d., the state of Montenegro holds 55,00 % of the Company's shares, the Strategic partner, an Italian national transmission operator - the company TERNA Rete Nazionale S.p.a. holds 22.0889% shares, while on 31 December 2015, custody accounts hold 11,8543 %, joint venture funds 3,1728 %, and other natural and legal persons 7,8847 % shares. Ten the biggest shareholders of the Company hold at the end of the year 92% shares.

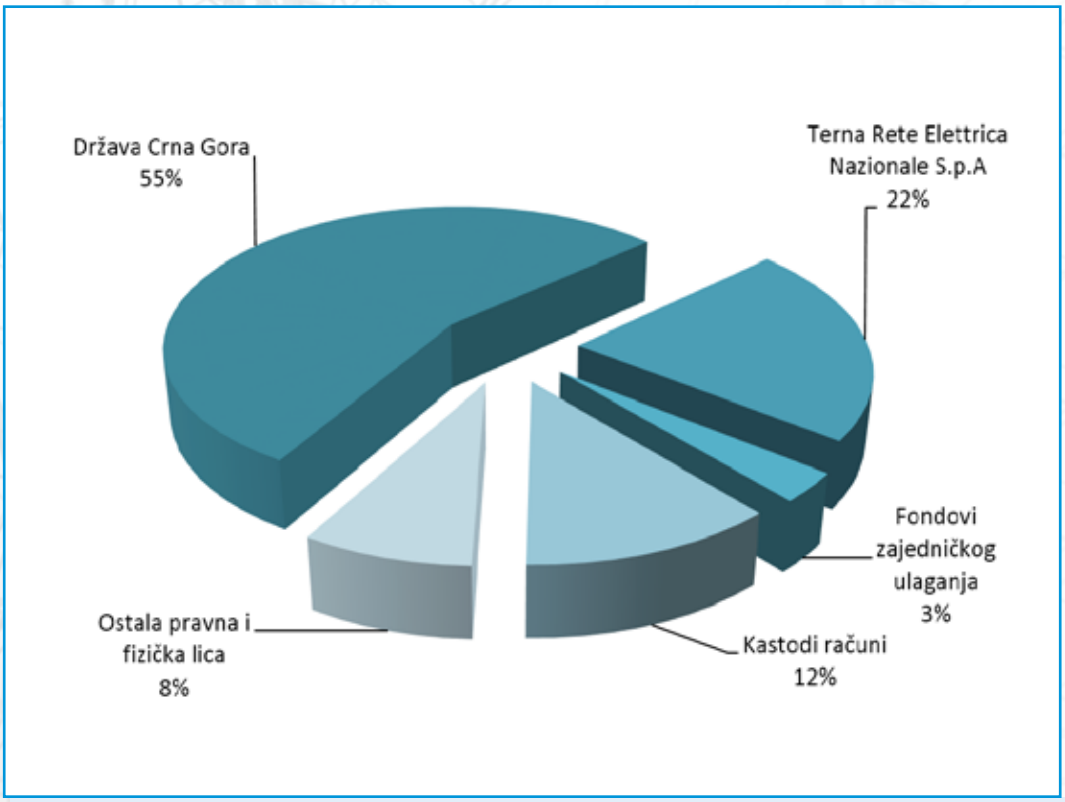


Chart 2 - Ownership Structure of CGES as of 31 December 2015

Interest of CGES in Equity of Other Companies

As of 31 December 2015, CGES was the owner of 4140 shares with a nominal value of 51.1292 euros, which makes the ownership interest of 1, 5290% in the capital of Invest Bank Montenegro AD Podgorica.

As one of the four founders of Elektroenergetski koordinacioni centar from Belgrade (EKC), CGES owns the ownership interest amounting to 49.548,31 euros which makes 25,00% capital of EKC. EKC 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.

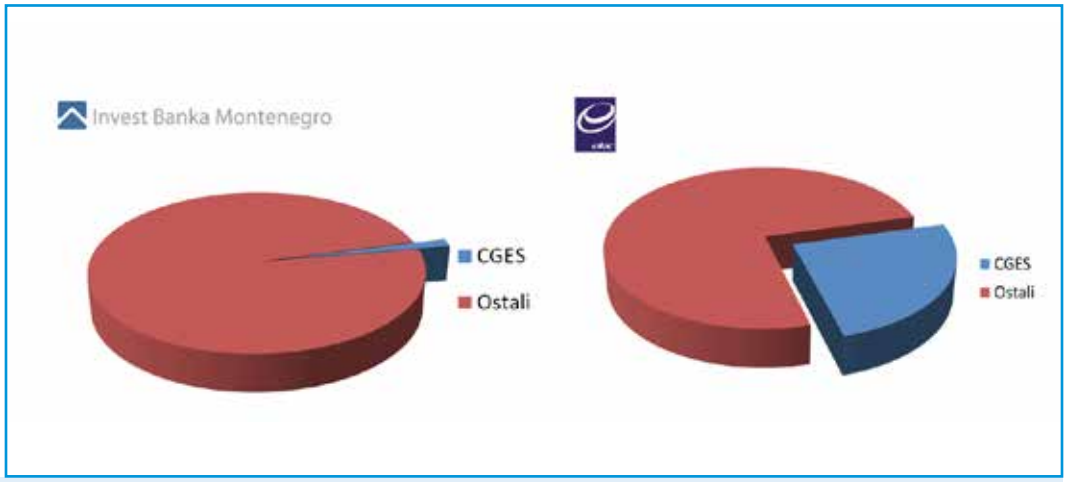


Chart 3
Ownership interest of CGES in Invest Bank Montenegro

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. At beginning of 2014, the project company changed into functional auction house – SEE CAO d.o.o. Podgorica, in which CGES is owner equal with additional six regional system operators.

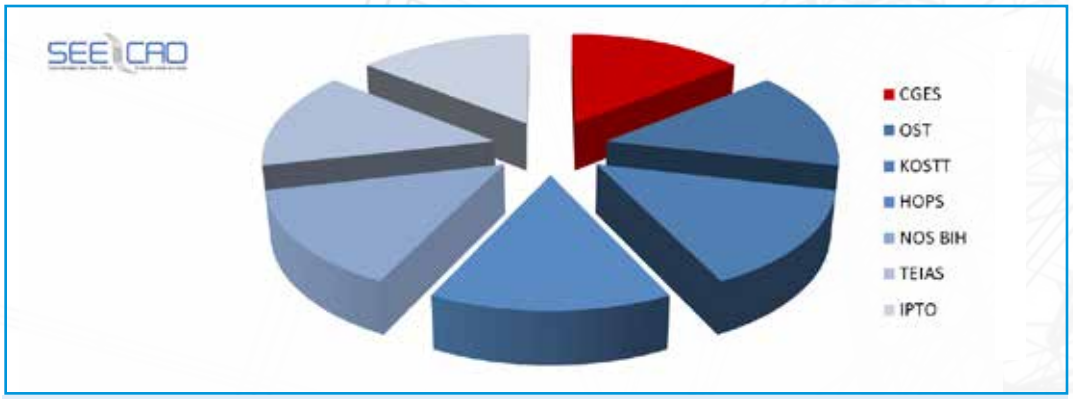


Chart 5
Ownership interest of CGES in SEE CAO

During 2015, SEE CAO d.o.o. successfully allocated cross-border transmission capacities on seven borders, including also borders Bosnia and Herzegovina – Montenegro and Montenegro – Albania on behalf of CGES, and in accordance with auction rules standardized at level of the seven members.

By complying with decision of competent authorities of ENTSO-E and seeking to prepare itself timely for application of standards of the regional coordincation of system operation security, during 2015, in cooperation with Serbian and Bosnian transmission system operators – EMS and NOS BiH, CGES founded a regional security coordination center – SCC d.o.o. (Security Coordination Center) with seat in Belgrade. Founders of the center are equal owners, with initial capital of 34.765,00 €.

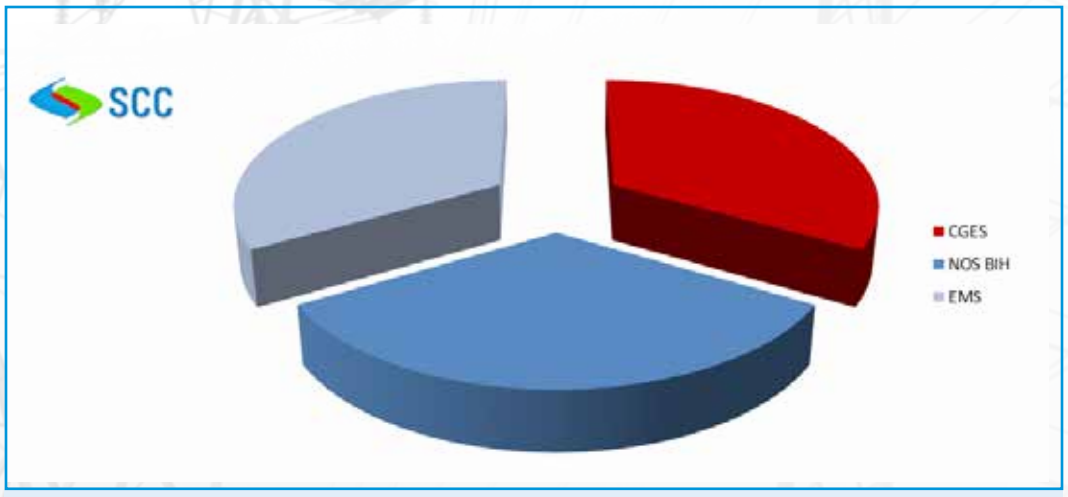


Chart 6
Ownership interest of CGES in SCC

SCC started with work on 01 August 2015 by providing to its founders services of verification of accuracy and correction of individual models for day-ahead, coupling of network models with network models of other transmission system operators in interconnection Continental Europe and forming of a joined network model for interconnection Continental Europe, and security analysis on joined network models for interconnection Continental Europe.

International Cooperation

Membership in ENTSO-E

Figure 7
Part of 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. Transposition of the EU Third Energy Package in Montenegrin legislation, initiated by adopting the new Energy Law, raised international cooperation within ENTSO-E to a new level, establishing it also as a legal obligation.

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 administrates 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.

Članstvo u MedTSO-u

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

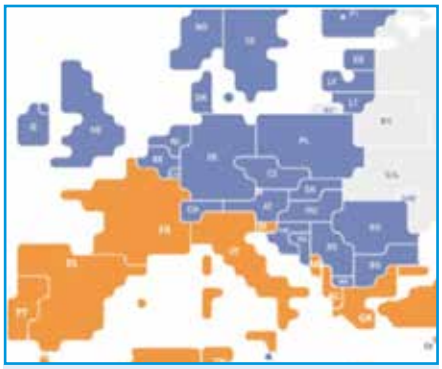


Figure 8
MED-TSO members

Highlights in 2015

January

13 January

Successfully coordinated allocation of capacity as a step forward in European integrations

Multiannual efforts of CGES to commence, in cooperation with neighboring transmission system operators, coordinated allocation of cross-border capacities in accordance with principles determined by the EU Third Energy Package, gave its first formal results at beginning of January 2015, in form of suspension of procedure initiated by the Energy Community Secretariat with respect to Montenegro and Bosnia and Herzegovina. A traditionally good cooperation between the Company and Independent System Operator of Bosnia and Herzegovina (NOS BiH) allowed commencement of work of the regional office for coordinated capacity allocation SEE CAO, which was recognized from internationally relevant addresses as a significant step towards application of European principles, and the two countries took a leading position regarding transparent allocation of cross-border capacities in the Energy Community.

April

13 April

Commencement of coordinated auctions on the border Montenegro – Albania

After a successful commencement of coordinated capacity allocation on the border Bosnia and Herzegovina – Montenegro through 2015 yearly auctions, CGES, in cooperation with Albanian transmission operator OST, extended the application of coordinated allocation through SEE CAO also to this border. Monthly auction for May 2015, successfully carried out by SEE CAO, represents a huge step forward in concretization of regional cooperation of transmission operators.

21 April

Foundation of Regional Security Coordination Center SCC

In accordance with one of its strategic commitments – to promote application of European standards in the field of electricity transmission, CGES, in cooperation with system operators from Serbia and Bosnia and Herzegovina – PE EMS and NOS BiH, founded a regional security coordination center - SCC d.o.o. with seat in Belgrade. The task of the Center is to allow to its founders application of modern standards and recommendations in the field of regional security coordination in accordance with international regulations and recommendations.

21 April

Intensified construction works on SS 400/110kV Lastva

After harmonizing application of the latest technological solutions in construction of SS 400/110kV Lastva and overcoming initial problems related to location of the future substation, Contractor SIEMES AG from Vienna intensified works on construction of this facility. One of the

most important electric power facilities of the transmission system on the location of Blato in Lastva Grbaljska is part of the project of electric power connection of systems of Montenegro and Italy by submarine cable.

May

01 May

Started the application of Agreement on exchange of tertiary control energy with EMS

By reaffirming the operation in the common control block, PE EMS and CGES replaced the multiannual practice of mutual assistance in the form of exchange of the so-called "emergency energy" with an agreement on exchange of tertiary control energy. Drafted in the spirit of applying modern solutions of cross-border cooperation in the field of system balancing, such agreement allowed enhancement of national balancing mechanisms and increase of competition of limited national resources for balancing, at the same time maintaining the existing level of reliability and readiness for mutual assistance in emergency circumstances.

25 May

Entry into operation of the reconstructed overhead line Nikšić-Bileća

Almost 60 years after construction, the oldest 110 kV overhead line in Montenegro that connects Nikšić and Bileća (BiH) was reconstructed, i.e. relocated on the section of the route in the area of Nikšić. The need to maintain and adequate level of functionality and extension of useful life of this line, in the specific case combined with real circumstances in the field, with the aim of increasing of rather reduced safety of elements, as consequence of constant increase of population in its proximity.

June

15-16 June

ENTSO-E DEVELOPMENT COMMITTEE HELD A MEETING IN BUDVA

Crnogorski elektroprenosni sistem hosted on 15 and 16 June the 45th ordinary working meeting of ENTSO-E System Development Committee (SDC), one of the three largest expert working bodies of this association. The task of SDC is to provide through coordination of planning a safe, efficient and economical system for transmission of electricity at the European level. Ten-year development plan, regional investment plans, market modelling, network modelling and unique information model are just some of the topics that were in focus of attention of 23 representatives of European transmission operators.

September

15-16 September

ENTSO-E SYSTEM OPERATION COMMITTEE IN MONTENEGRO

By continuing an intensive campaign of enhancing cooperation with other operators within ENTSO-E association, CGES organized on 15 and 16 September also a meeting of the second of its three largest expert bodies - System Operation Committee (SOC), as well as its Regional Group Continental Europe. By binding its legal obligation of cooperation within ENTSO-E association, seeking with direct contacts with European colleagues to permanently improve quality of electricity transmission service, CGES took this opportunity, as well as the opportunity on the occasion of the meeting of SDC, to promote also Montenegro and its, not only energy, resources to the highest representatives of operators from almost all over Europe.

December

01 December

SECURED COLLATERAL FOR THE LOAN

At the IV extraordinary Shareholder's Meeting of the Company, it was adopted the decision on pledging CGES assets for securing collateral for sovereign guarantee to be issued for coverage of portion of CGES loan contracted with EBRD. This act allowed obtaining of loan for the most significant investment project of the Company under more favorable conditions that allows securing of sovereign guarantee, and at the same time, the State of Montenegro is secured from the risk of its eventual activation.

27 December

Commissioned the second transformer in SS 220/110/35kV Mojkovac

After almost forty year operation in the regime that does not provide reserve in supply in case of failure of the only 110/35 kV transformer, substation 220/110/35kV Mojkovac, which represents main point of electricity supply of municipalities Mojkovac and Kolašin, was extended by installing a second transformer, whereby providing fulfillment of "n-1" security criterion. With this investment, the number of delimitation points of the distribution and transmission system where the mentioned reliability criterion is not fulfilled is reduced only to two.

29 December

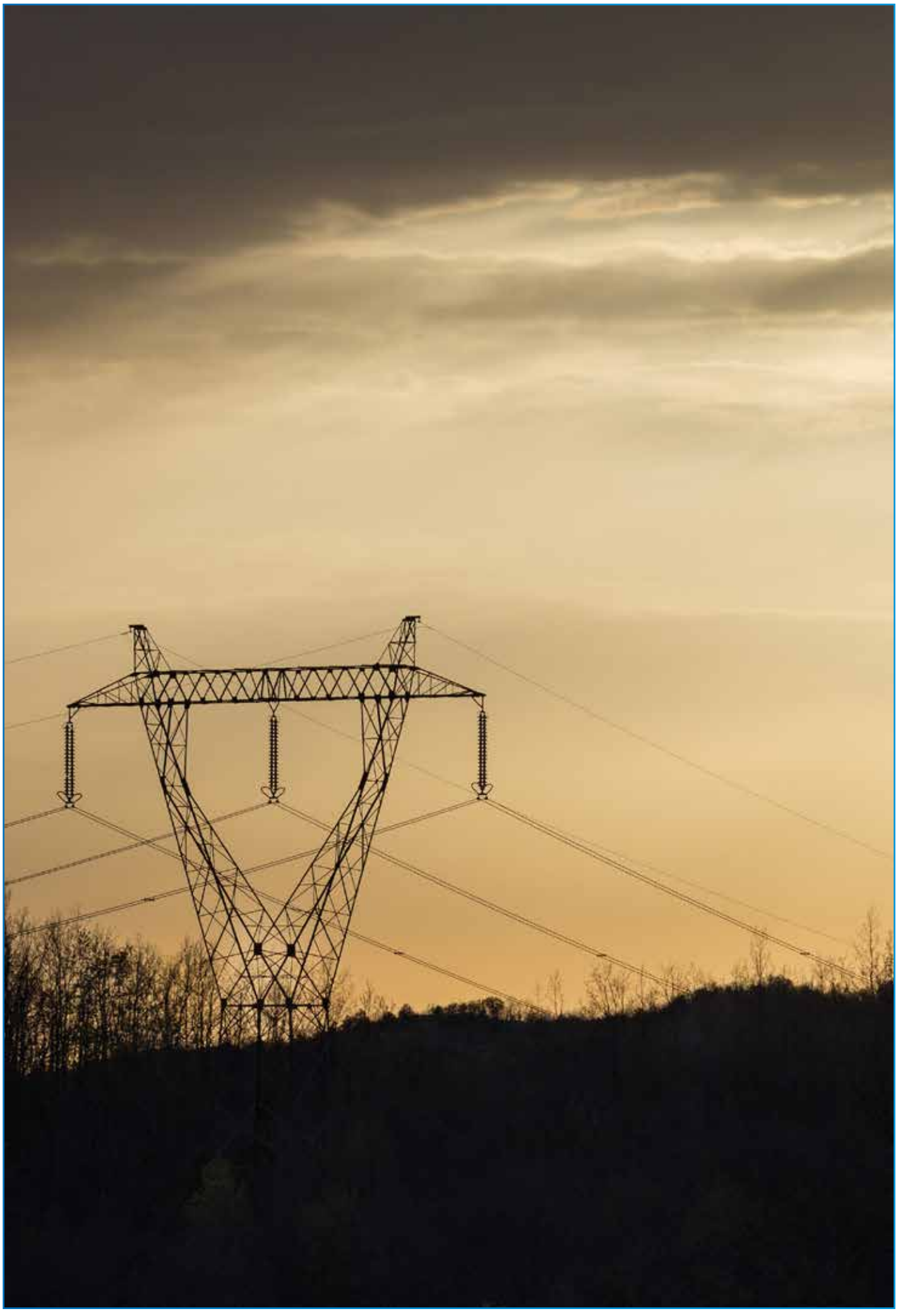
PE Elektromreža Srbije enters the ownership structure of CGES

Public Enterprise Elektromreža Srbije bought on the Montenegro Stock Exchange about ten percent of Crnogorski elektroprenosni sistem shares, thereby becoming the third largest shareholder of the Company. Interest of another neighboring transmission system operator for CGES shares, along the strategic partner of the State of Montenegro – Italian Company Terna, is a characteristic indicator of attractiveness of Company's shares in eyes of other transmission system operators, as well of high market value of assets and potentials it has.

29 December

Adopted the new Energy Law

At the last meeting in 2015, the Parliament of Montenegro adopted the new Energy Law, whereby performing transposition of the EU Third Energy Package into the Montenegrin legislation. From the Company's perspective, the new provisions related to independence and certification of system operator, complete opening of internal electricity market, connection of facilities and standardization of relationships with all system users are of particular significance.



Technical data

Investments

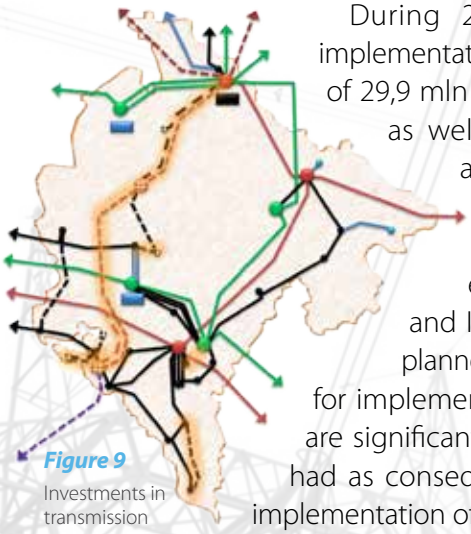


Figure 9
Investments in transmission system

During 2015, activities were conducted on implementation of investment projects in the amount of 29,9 mln €.. Due to a significant amount of funds as well as large number of projects, special attention is dedicated to the investment plan implementation. Projects related to implementation of connection between electric power systems of Montenegro and Italy are mostly implemented within the planned scope, considering that contacts signed for implementation of construction of overhead line are significantly more favorable than the plan, which had as consequence that the percentage of financial implementation of this part of the plan does not reflect good enough the real high fulfillment percentage of planned obligations. Investing in the rest of the electric power system of Montenegro planned in the amount of 9,7 mln € was implemented with very good 90%. We underline the following projects as the most important

Besides a moderately good implementation of the belonging part of the project of connection of Montenegro and Italy, in 2015 was achieved a very good implementation of

90%

of the Investment Plan in the remaining domestic transmission infrastructure

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

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

The project involves construction of:

- SS 400/110/35 kV „Lastva", with power 2x300 MVA, GIS principle;
- 400 kV OHL „Lastva - Čevo" according to the "input – output" principle from SS "Lastva" to the OHL "Podgorica – Trebinje" and a section of the 400 kV "Lastva – Pljevlja". The 400 kV overhead line from Lastva to Čevo is about 35 km long, with one single-circuit (section of the future overhead line Lastva –Podgorica) and one double-circuit line running parallel to it (section of the overhead line Lastva –Trebinje and Lastva-Pljevlja).
- 400 kV OHL "Čevo – Pljevlja", 115 km long, is constructed as a double circuit line 40 km long from Brezani to Kosanica (from Brezna to Njegovuđa as a 400 kV overhead line and section of the 110 kV overhead line Brezna-Žabljak, and from Njegovuđa to Kosanica as a 400 kV overhead line and section of the 110 kV Žabljak-Pljevlja). The construction of this OHL will close the 400 kV ring in the area of Montenegro, whereby improving the reliability of the power system. Existing 400 and 220 kV networks in the area of Montenegro are radial and parallel, which represents a big drawback because failure of sections of the 400

kV overhead line in certain situations overloads the 220 kV network, therefore by constructing the new 400 kV overhead line it will be closed the 400 kV loop in the area of Montenegro.

In 2015, activities were mostly performed according to the planned timetable in accordance with signed contracts for all parts of the project.

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

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

Project implementation includes:

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

Works on construction of SS 110/35kV Kotor were completed up to acceptance testing for entry into operation of the facility. In 2015, purchase and installation of new 110/35kV, 20MVA was performed.

Entry into operation of the facility was envisaged by the plan in 2015, however obtaining of necessary use permits and approvals for construction of the overhead line Tivat-Kotor prevented entry into operation of the facility. Obtaining of permit for construction of the overhead line delayed due to consolidation of planning documents of Municipalities of Tivat and Kotor. Delay of work commencement was also due to very complex and long-lasting process of solving property and legal relations.

Project completion is expected during first half of 2016.

3. Construction of SS 110/10 kV Nikšić II (Kličevo) and connection lines (IPI 012)

For ensuring a reliable and safe supply of the urban area of the Municipality of Nikšić, all carried out analysis showed that it is necessary to build a new SS 110/10kV Nikšić II on the location of the existing SS 35/10kV Kličevo. The significance of this project, except a more reliable and safer electricity supply of consumers, is that it will allow connection of new generation capacities to the transmission network, i.e. Wind Farm Krnovo, electric-traction plant for needs of Railway Infrastructure, as also consumers that will be connected to the electric distribution network.

Works are being implemented in accordance with signed contracts for construction on a "turn-key" basis – designing, delivery of equipment and work performance, and the total value of the project amounts to 8.140 mln €.

This project includes the construction of:

- TS 110/10 kV „Kličevo" u GIS izvedbi, na lokaciji postojeće TS 35/10kV „Kličevo";
- kablovskog voda 110 kV ,dužine četiri kilometra do postojeće TS 110/35kV „Nikšić",
- SS 110/10 kV „Kličevo"in GIS principle, on the location of the existing SS 35/10kV "Kličevo";

- cable line 110 kV, 4 km long, to the existing SS 110/35 kV "Nikšic";
- connection of 110(35) kV overhead line Nikšić – Brezna that currently operates under 35 kV voltage level to the new SS 110/10 kV Nikšić II;
- equipping of the pertaining bay for needs of connecting 110 kV cable for SS Nikšić II, and modernization and upgrade of protection and control system in the existing SS 110/35kV "Nikšić".

In 2015, based on signed contracts, works were completed on construction of SS 110/10kV Nikšić II except acceptance testing for entry into operation of the facility. Works were completed also on connection of 110 (35) kV OHL Brezna to the new SS Nikšić II, as well as equipping of bay in the existing SS Nikšić for connection of 110 kV cable. Works on construction of 110 kV cable line were not completed in accordance with the plan due to delay in delivery of the cable by the Contractor (shifting of delivery dates was caused by the change of location of the factory for production of cables).

Completion of the project is expected in September 2016.

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

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

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

All planned works in 2015, which were envisaged in the first project phase, were successfully completed.

In 2015, in parallel with implementation of the first phase, activities were performed on preparation of concept and tender documentation for the final phase of reconstruction of protection and control system in the transmission network,

Completion of the project is expected in 2018.

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

After completion of reconstruction of plant (construction of new 220 kV plant and connection to the overhead line Podgorica-Pljevlja according to "input-output" principle) in SS 220/110/35 kV "Mojkovac" in 2013, the project of extension of SS 220/110/35 kV "Mojkovac" for one new transformer bay 110/35 kV was recognized as a priority, which will ensure the n-1 criteria in transformation 110/35 kV in the transmission network point from which are supplied the Municipalities of Mojkovac and Kolašin. Additionally, the project is important also from the aspect of providing conditions for connection of renewable electricity source, primarily little hydro power plants, as well as from the aspect of providing conditions for an

undisturbed development of also other investment projects in the area of Mojkovac and Kolašin as important tourist centers.

Project implementation includes:

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

In 2015, based on signed contracts, purchase of the entire equipment (110/35 kV transformer, 20 MVA and HV equipment for 110 and 35 kV bays) was completed and all planned activities on work performance were performed. The facility was put into operation at end of December 2015, and in 2016 it remained only to perform technical acceptance and to obtain a use permit for the facility. Additionally, all works on reconstruction of auxiliary consumption of SS were completed, whereby bringing the facility into a state that ensures a high level of reliability of supply of Mojkovac and Kolašin from the perspective of transmission network.

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

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

Project implementation was mostly in delay due to very long and complicated solving of legal property relationships and obtaining of permits and approvals for construction.

In first half of 2015, all planned works on relocation of overhead line sections were completed and the facility was put in ordinary operational state.

7. SCADA for the National Dispatching Center with EMS system

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

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

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

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

Completion of the project is expected in 2018.

8. Procurement and implementation of hardware and software for FMIS

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

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

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

Completion of the project is expected in 2017.

9. Reconstruction of 110 kV OHL Bar-Budva

The 110 kV, AlFe 150/25 mm2, SS Budva – SS Bar overhead line was constructed and put into operation in 1977. The concerned overhead line is in the coastal area throughout its entire route, therefore during determining of its route, complying with requirements of local governments, the same was moved towards higher elevations (hill) as much it was possible. Such solution preserved the coastal area from infrastructure facilities and reduced the visual impact of the overhead line on the environment.

The aforementioned facts conditioned that the overhead line route was selected, and the same overhead line was constructed on a very difficult terrain that is exposed to unfavorable weather conditions (ice, snow and constant wind), which caused that the overhead line already had some larger breakdowns and mostly in the range of towers number 50-55 (directly above Buljarica). Breaking of conductors, breakdown of cross-arms and breakdown of entire towers occurred mostly due to bad weather conditions. Repairs implied a long period of unavailability of the facility.

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

The planned completion date of reconstruction in 2015 was not realized due to a very difficult terrain for work performance, impossibility of obtaining no-load condition during the tourist season.

Completion of project of reconstruction is planned in May 2016.

10. Reconstruction of switchgears

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

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

- SS 400/110/35 kV "Ribarevine" – where is planned the replacement of 400 kV circuit breakers.

In 2015, based on signed contracts, purchase of the entire equipment planned for replacement was performed, project documents were drafted, procedure of obtaining use permits and approvals for construction was initiated, and works on replacement of equipment in SS Pljevlja 2 commenced in mid-December due to the fact that operation of the existing HV equipment in trafo bays was such that it does not allow reliability and safety during connection and disconnection of the same. Completion of all planned activities on replacement of equipment in SS Pljevlja and Ribarevine in 2016.

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

Existing state on the territory of the Municipality of Nikšić is such that supply of consumers from part of the transmission network is performed from SS 110/35kV Nikšić that was constructed and commissioned in 1957, with two transformers with power of 93MVA (63+30). One of the power transformers 110/35 kV, 30 MVA (three single-phase units) in SS 110/35 kV "Nikšić" has been in operation from construction of the substation in 1957. Based on results from regular transformer testing, we concluded that its technical characteristics do not allow operation that ensures reliability and safety of supply of consumers and that is necessary to replace it with a new one. In order to provide enough reserve in transformation power for a safe and reliable supply of consumers due to constant increase of electricity consumption, it has been planned the installation of a higher power transformer – 40 MVA.

In 2015, based on signed contracts, purchase of the transformer was completed, permits and approvals for construction based on developed preliminary design were obtained, and we commenced with development of main design and preparation for work performance. Project implementation requires performance of works of larger scope (construction of new foundations for both transformers that supply distribution consumers, new oil pits and oil sewage) in order to fulfil requirements in terms of environmental protection.

Completion of project is expected in second half of 2016.

12. Other projects

In addition to the aforementioned projects, in 2015 extensive works were done on other investment projects, namely:

- Reconstruction of OHL 110 kV "Budva-Lastva-Tivat",
- Construction of SS 110/35 kV "Žabljak",
- Construction of OHL 110 kV "Virpazar-Ulcinj",
- Connection 110 kV "Podgorica 1 – Podgorica 4 (air-cable connection)",
- Construction of 110 kV OHL "Lastva-Kotor",
- Upgrade of hardware and software in NDC SCADA system,
- Refurbishment of 110/35 kV SS "Nikšić" (recovery of concrete gantries),
- 400/110/35 kV SS "Brezna",
- Construction of 110/35/10 kV SS "Zeta" and 110 kV OHL "Podgorica 5 –Golubovci - Virpazar",
- Refurbishment of 110 kV overhead lines (replacement of equipment and reconstruction),

- Development, reconstruction, measurement and protection in SS,
- Other investments,
- 400 kV OHL "Pljevlja 2-Višegrad" and 400 kV OHL "Pljevlja 2-Bajina Bašta".

Maintenance

Substation maintenance

In accordance with the 2015 Maintenance Plan, as well as the standards and technical regulations on the maintenance of electric power transmission facilities, in the reporting period the Department for Substation Maintenance performed a total of 303 work orders, 71 of which were remedial actions.

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

Voltage Level	REVIEW planned/realized	OVERHAUL planned/realized
400 kV	3/3	0/0
220 kV	1/1	0/0
110 kV	13/13	4/4
35 kV	17/17	8/8

Table 2: Summary of activities of Department for Maintenance of Substations for 2015

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

The following HV equipment was replaced:

Equipment name	Quantity
Circuit breaker 35 kV	3
Disconnector 35 kV	3
Surge arrester 35 kV	18
Surge arrester 110 kV	6
Current measuring transformer 35 kV	12
Voltage measuring transformer 35 kV	7
Current measuring transformer 110 kV	14
Voltage measuring transformer 110 kV	8
Current measuring transformer 220 kV	6
Voltage measuring transformer 220 kV	3
Current measuring transformer 400 kV	6
Voltage measuring transformer 400 kV	2
Power transformer 63MVA	1
Power transformer 31.5 MVA	1

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

- Breakdown repair in OHL bay 35 kV Kolašin in SS 220/110/35kV Podgorica 1
- Breakdown repair in trafo bay 35 kV T1 20 MVA in SS 110/35kV Danilovgrad
- Breakdown repair in OHL 35 kV Rožaje in SS 110/35kV Berane
- Breakdown repair in OHL 35 kV Žabljak Stari in SS 110/35kV Pljevlja 1
- Breakdown repair in OHL 35 kV Kotor in SS 110/35kV Cetinje
- Breakdown repair in OHL 35 kV Budva 2 in SS 110/35kV Budva
- Breakdown repair in OHL 35 kV Nikšić 2 in SS 110/35kV Nikšić

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

- Replacement of existing power transformer 110/35kV, 20 MVA, SMT 110 kV in trafo bay T1 with transformer 31.5 MVA in SS 110/35 kV Ulcinj
- Replacement of existing power transformer T4 110/35kV, 40 MVA, SMT 35 kV and power cables 35kV in trafo bay T4 with new transformer 63 MVA in SS 220/110/35 kV Podgorica 1

Maintenance of overhead lines

In accordance with the 2015 Plan, as well as the standards and technical regulations on the maintenance of electric power transmission facilities, in the reporting period the Department for Overhead Line Maintenance performed a total of 90 inspections and 13 overhauls of overhead lines. The overview of activities by voltage levels is shown in Table 3.

	INSPECTED Planned/realized	**OVERHAUL** Planned/realized
400 kV	10/10	1/1
220 kV	14/14	2/2
2x110 kV	4/4	2/2
110 kV	52/52	6/6
110(35) kV	10/10	2/2
∑	**90/90**	**13/13**

Table 3:
Overview of the activities of the Department for OHL Maintenance in 2015

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 the transmission line route was completed in the range of approximately 900.000 m2, which is by 50% more than planned leading to low possibility of breakdowns or increased operational readiness of the lines. The transmission lines were built approximately 17.000 kg of the missing structures.

During this period, the Department for OHL Maintenance made 31 emergency remedial actions in addition to repairs within the current OHL maintenance.

Anti-corrosion protection was performed on the 110kV Herceg Novi-Trebinje, 110 kV Bar-Ulcinj and 110 kV Perućica-Nikšić line III.

On the OHL 110kV Budva-Tivat phase conductors were replaced and part of insulation and jointing and suspension equipment, which returned a full operating capability of the significant overhead line.

On the OHL 2x110kV phase conductors were replaced and insulation and jointing and suspension equipment in the tension bay tower number 100-111.

The employees of the Department also performed a range of other activities, such as managing and participating in several investment projects, defining route of future overhead lines, revising the project documentation, supervising the performance, etc.

Also, an overhaul of the OHL 110(35) kV Pljevlja - Žabljak was carried out, which was not envisaged by the Investment and Current Maintenance Plan. Extraordinary overhaul of this overhead line was performed due to serious outages occurred during winter period early in the year.

Testing of high voltage equipment and protection

According to the Energy Law Transmission System in Montenegro consists of overhead lines at 110kV, 220kV, 400kV voltage level and 21 substations with 46 transformers with a total installed capacity of 3413,5 MVA and transmission ratio of 400/220 kV, 400/110 kV, 220/110 kV and 110/x.

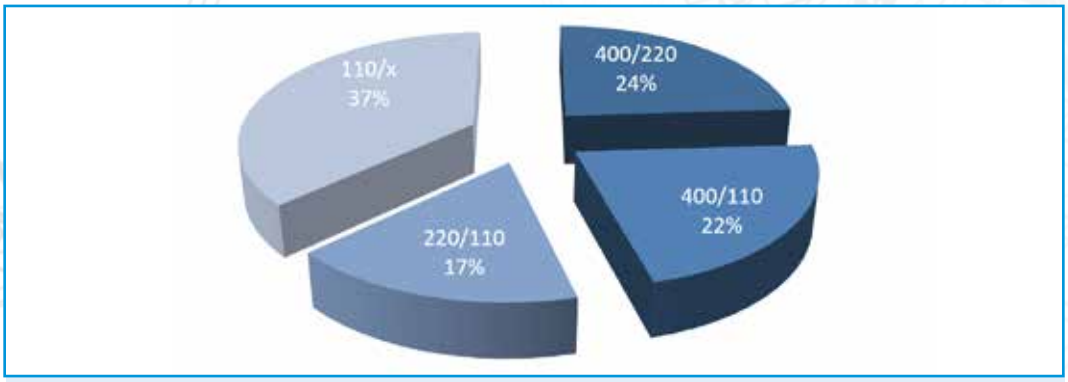


Chart 6
Installed capacity of power transformers of CGES by voltage levels

In accordance with the 2015 Plan, as well as the standards and technical regulations on the maintenance of electric power transmission facilities, in the reporting period for 2015, the Department for Protection and Testing performed a total of 270 work orders, out of which only 9 were emergency remedial actions.

32 new microprocessor protection were installed while 110 existing protection were checked and tested. The measurement of partial discharge for all instrument transformers in operation was carried out as well a thermal imaging inspection of the entire high-voltage equipment of all facilities and 22 transformers were fully tested.

Voltage level	Planned				Realized			
	Protective relays	Partial discharge and thermography	Thermal imaging inspection of SS	Full testing of ETR	Protective relays	Partial discharge and thermography	Thermal imaging inspection of SS	Full testing of ETR
440 kV	7	81	3	1	10	81	3	1
220 kV	6	84	2	0	4	84	2	1
110 kV	38	455	16	13	62	455	16	20
35 kV	12	122	-	-	14	122	-	-
ETR	14	47	-	-	20	47	-	-
TOTAL	77	789	21	14	110	789	21	22

Table 4:
Overview of activities of the Department of Protection and Testing in 2015

System Control

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

The total consumption of electricity in Montenegro in 2015 finally stopped its downward trend which started in 2008. A continuing decline in electricity consumption of the largest consumers directly connected to the transmission network (for Željezara Nikšić the decline since 2008, and for KAP Podgorica since 2011) stopped and the total consumption in the country is still significantly lower than it was once usually 4.5 TWh per year (e.g. 4.47TWh in 2007), but it is slightly better compared to 3.12TWh in 2014 amounting to 3.32 TWh in 2015. The increase is predominantly a result of increase in distribution consumption and the fact that the consumption of Željezara Nikšić returned to the level in 2012.

Indications of recovery of consumption are encouraging having in mind the fact that transmission system was planned and developed for significantly higher consumption regimes within the country, and today's level of domestic consumption makes the 400kV transmission lines in particular underloaded, bringing them into operation modes far below their„natural power" which enables optimal exploitation from the standpoint of minimum technical losses in transmission.

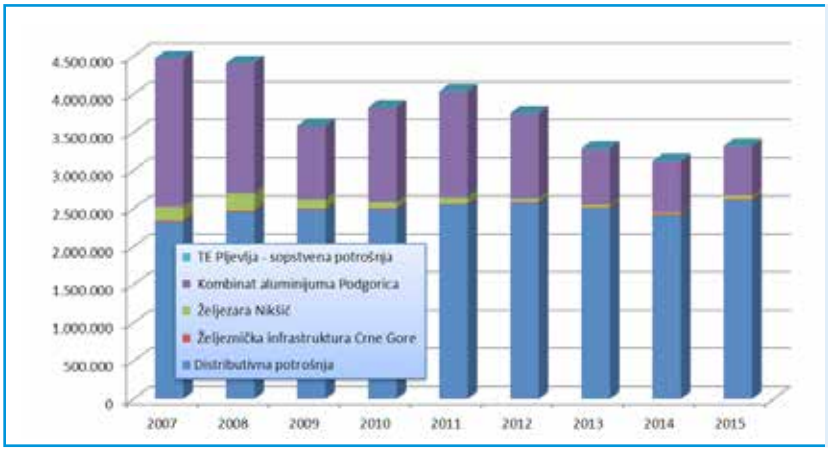


Chart 7 - The trend of electricity consumption in Montenegro from 2007 to 2015

After decline recorded in 2014 in vertical load compared to distribution network there is an increase from 2,42TWh in 2014 to 2,61TWh in 2015 (7.9%), thereby the quantity of electricity given to distribution system operator surmounted ten-year maximum from 2012 by 1.3%.

With reference to distribution consumption, it is important to emphasize that the consumption migration trend from the northern to coastal part of Montenegro is significantly slow, i.e. during 2015 we can note more equal distribution of consumption growth than it was recorded in previous several years. A significantly huge decline was noted in vertical load in point SS 110/35kV Berane – almost equal compared to 2007 and 2014, which was caused by connection of several distributed energy sources in that area.

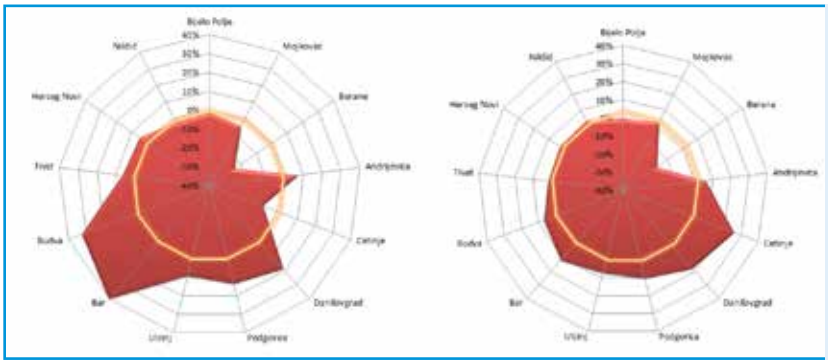


Chart 8 - Distribution of gradient of the distribution consumption by municipalities for the period 2007-2015 (left) and 2014 - 2015 (right)

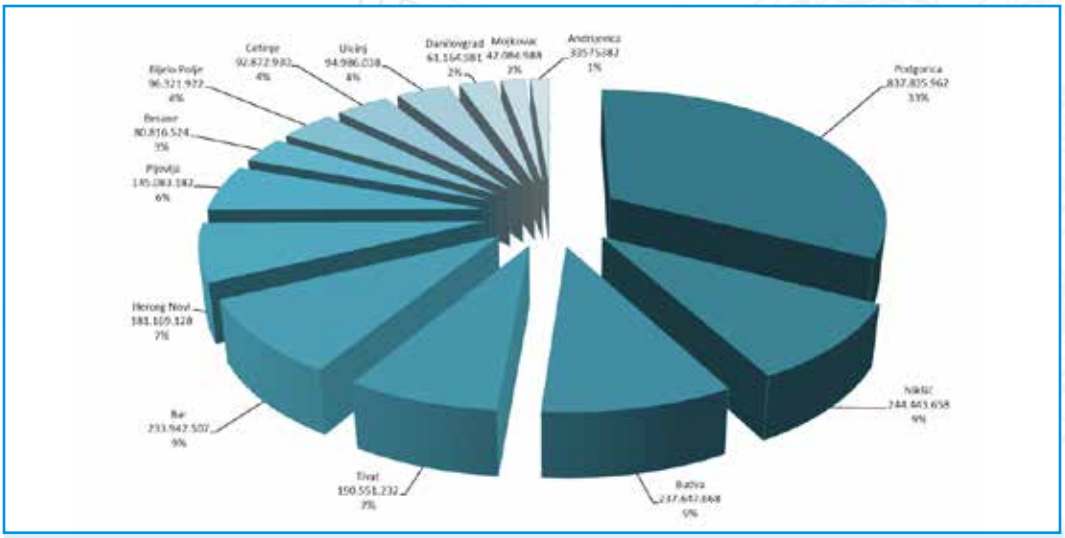


Chart 9
Electricity delivered to the distribution network in 2015 in MWh by municipalities

From the perspective of development and total costs of operation of the transmission network, in particular the specific is the ratio of peak powers in the connection points of the distribution system, according to average annual power consumption. In Chart 10 we can conclude that the peak load of the transmission system, required by the distribution system in summer and winter season, does not deviate much.

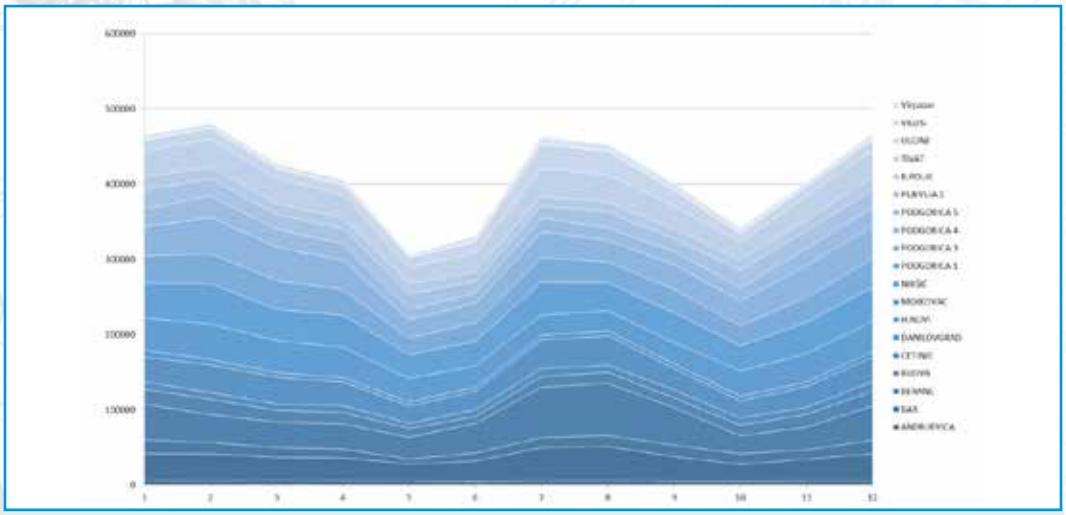


Chart 10 – Participation in the simultaneous distribution system peak load, by municipalities (kW)

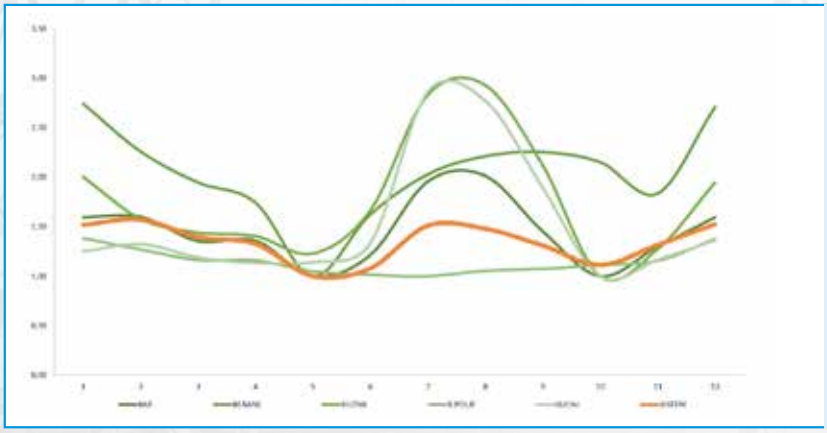


Chart 11 – The ratio of maximum and minimum peak load by month in the connection points of the distribution system

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

Exactly chart 11, i.e. the fact that the peak load in SS Ulcinj, during the month of August, more than 3 times exceeds peak load in May, best illustrates very little utilization of installed infrastructure beyond the tourist season. This, of course, makes the overall network relatively expensive compared to the total amount of transmitted electricity for domestic distribution consumption.

Energy transferred to satisfy domestic production needs

Two extremely good hydrological years were followed by the 2015 which resulted in generation by about 8% lower than the eight-year average, therefore from the generation facilities 2.83TWh of electricity was injected into the transmission system [Chart 10].

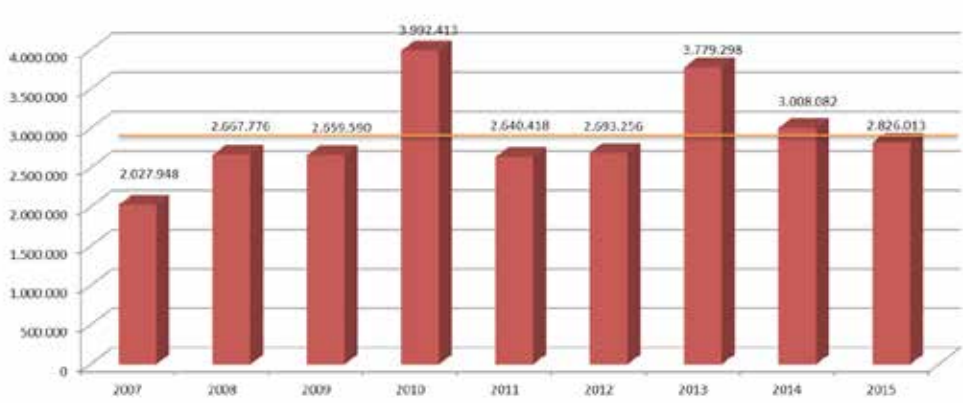


Chart 12 – The power generation of the plants in Montenegro from 2007 to 2015 in MWh

Because of both the multiannual decreasing trend of consumption in the country, and the very good hydrology, in the last several years multi-decade practice of a huge electricity deficit has stopped.

Consumption in the country was in 2015 higher than domestic generation by about 0,6TWh, which is higher deficit compared to 2014.

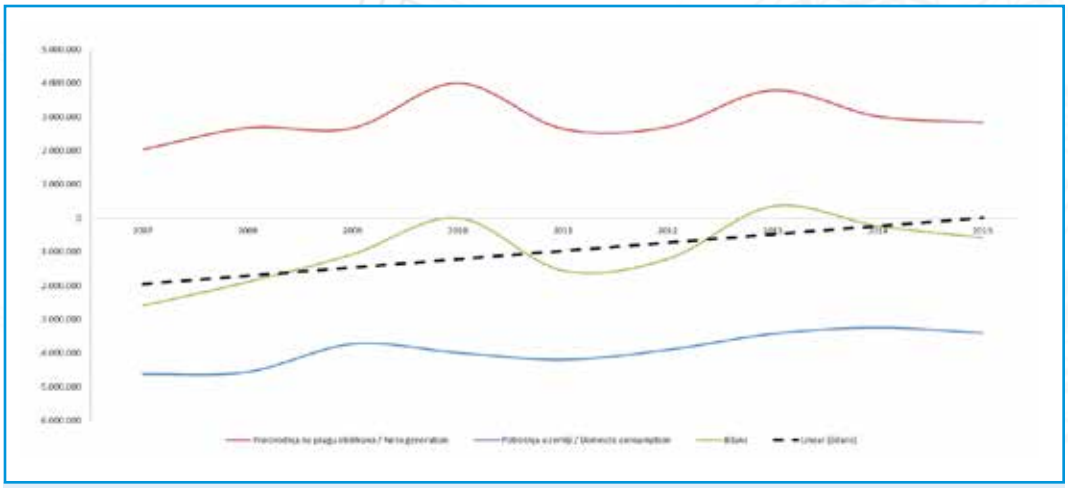


Chart 13 – The balance of generation and consumption of electricity in Montenegro from 2007 to 2015 in MWh

Total energy transferred through Montenegrin power system

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, through the Montenegrin transmission system during the year 5.78TWh of electricity was transferred, which is lower by 15% compared to 2014 and by about 5% compared to the eight-year average.

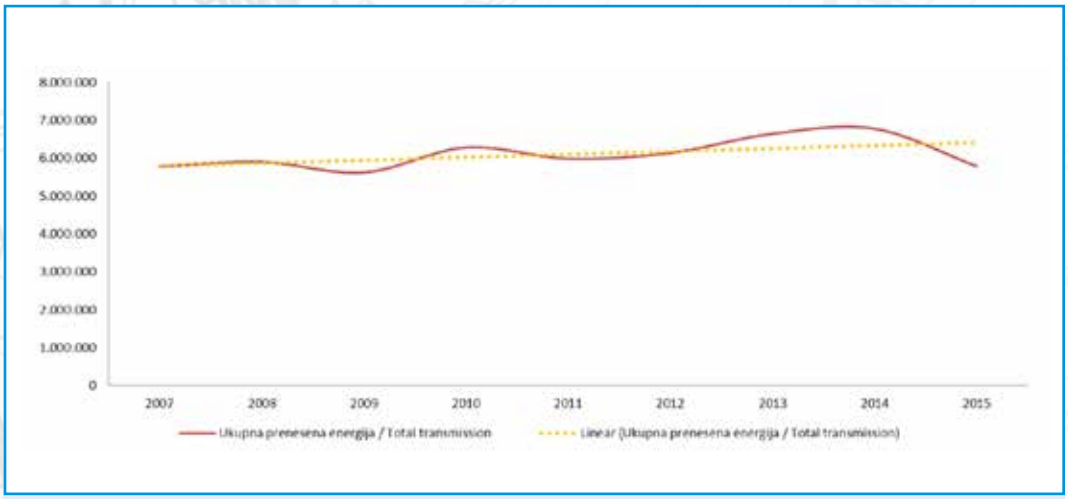


Chart 14 – Trend of total electricity transmitted and transit of the power transmission network of Montenegro in the period between 2007 and 2014 in MWh

In addition to the abovementioned, a recorded decrease in the transmitted energy cannot be considered a trend, but one-time phenomenon, particularly having in mind a previous multi-year growth trend of the total amount of transited energy.

Quality of delivery of and cancellation of cross-border capacities

During 2015, the quality of electricity delivery to consumers connected to transmission system had additionally improved. Total duration of unforeseen supply interruptions in the connection points of transmission system users is almost two times shorter compared to the previous year, whereby continuing a fast trend of quality improvement. Due to unforeseen interruptions, the amount of undelivered electricity is estimated, according to the Methodology for the evaluation of undelivered energy, at 512MWh.

Total undelivered energy from transmission network towards consumers in Montenegro during 2015 was estimated to be

0.0199%

The total of 99.980% of the domestic electricity consumption needs was transferred in the year, whereby the reliability of supply of individual consumption centers was less balanced than in the previous year (only two points – Vilusi and Andrijevica cover 72% of total interruption duration). From the perspective of the distribution consumption, the least reliable points of energy delivery to distribution operator in 2015 were SS 110/35kV Vilusi with a total duration of supply interruption of 2584 minutes, SS Andrijevica with 1734 minutes, SS 110/35 kV Danilovgrad with 737 minutes and SS 110/35 kV Nikšić with 118 minutes, while the most reliable points were the connection points of distribution system in Bijelo Polje, Budva and Podgorica 3 and Podgorica 4, where there were no supply interruptions. In other substations a total duration of interruptions of supply of energy to consumers throughout the year was between 30 minutes and 2 hours.

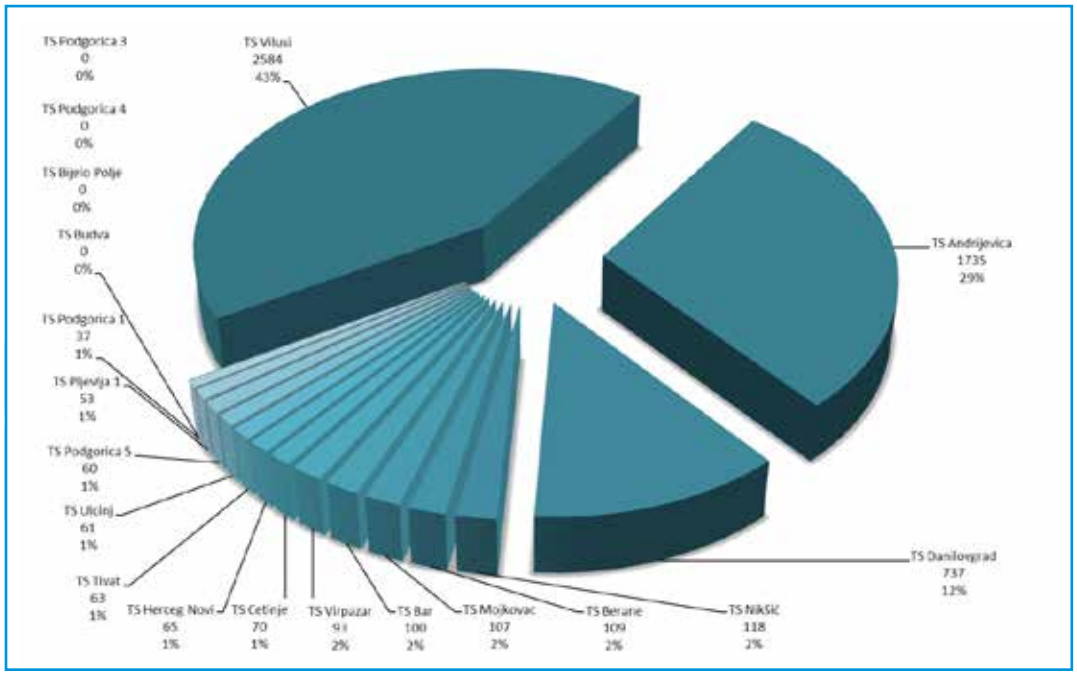


Chart 15 – The duration of power interruption in 2015 per connection points in minutes and percentage of participation in the overall duration of the power interruption

During the year there were no cancellations of cross-border transmission capacity due to unavailability of interconnection lines, therefore, the availability of the allocated capacity was 100 %.

The allocated cross-border transmission capacity available to users was

100 %

Social Responsibility

This year may be surely acclaimed as the year of socially responsible activities, because in our company many activities aimed at promoting such policy were carried out.

The resolve of Crnogorski elektroprenosni sistem to be socially responsible company interweaving such activities in all segments of the overall business operation comes as a result of a longstanding experience in this field, as well as a firm position that it does a good thing. The correctness of this business policy is affirmed by the public, i.e. acknowledges that this electric power company received during 2015 for the social philanthropy projects.

Since the very beginning of its development, our company has taken care of social community to which it belongs. In this respect, support to the development of Montenegrin sport is important part of socially responsible operations of CGES. This electric power company, among other things, has continuously invested in sport and sporting events. Supporting sport at the highest level, Crnogorski elektroprenosni sistem continued cooperation with the Women's Handball Club "Budućnost", which represents Montenegrin brand achieving extraordinary sporting results.

Besides, we are proud to be sponsor of Water Polo Swimming Association of Montenegro.

Supporting heathy lifestyles, we helped NGO "Association for Development of Children and Young People - Fair Play" to participate in Đetić league in futsal and "League of Young People" in basketball for children, which took place on 13 June 2015 in Sports Centre "Morača". We must not forget support in holding athletic race "Liberation of Podgorica".

CGES has implemented its socially responsible operations in all area of life, particularly in part representing the most vulnerable members of Montenegrin community – children. In this respect, CGES has directed some care and attention in the form of equipping male department towards Children's Home "Mladost" from Bijela, as the only institution in Montenegro dealing with taking care of children deprived of parental care as well as those obstructed by family situation.

Donation to Children's Hospital reaffirms our resolve to be socially responsible company. Being aware of all challenges our health services are facing, we have opted for Paediatrics Department "A" consisting of the most vulnerable group of patients – children. Feeling sympathy for the "little patients", this donation has provided them much better conditions in which they dwell during treatment. Thus we have sent a clear message that this electric power company shows sensibility towards those who most need help.

We are particularly sensitive to disabled persons and institutions taking care of these members of our social community. Here too is recognized our humanity. Note donation for interactive board to "Resource Centre" in Kotor.

Taking continuous care of environmental protection which is an integral part of its everyday operations, Crnogorski elektroprenosni sistem has donated 30 houses for falcon nesting to CZIP. In early October, on the occasion of marking European Bird Watching Day, houses for nesting were prepared and birds were ringed. Analysing positions of all overhead lines in Montenegro before the commencement of the project with CZIP, Crnogorski elektroprenosni sistem selected a significant number of tower locations suitable for bird nesting. Following the practice in the countries of European Union, overhead lines which are away from usual bird nesting places were taken into consideration so as to encourage these rare birds to make nests on the overhead lines as well. Since the installation of houses is planned away from cliffs and traditional places in which these birds make nests, we expect nesting of all falcon species in Montenegro and some species of owls as well.

CGES supported the project "Young People for the Green Montenegro" within their action "Donate Wood to Podgorica" organized by the Forum of MNE. The action took place in park – forest "Zlatica", whereby CGES promoted its social responsibility.

Besides, on the day of the action was placed a donator board with a nameplate of our company on it, which besides other institutions, organization and citizens granted a donation for seeding, thus showing its care for environmental protection.

We must not forget financial support in organizing VII International Festival "Bridges Connecting People", which was granted by CGES to NGO "Tara".

In past year, we devoted our attention to various social events such as festivals of puppetry, music, act and other cultural and art activities.

Recognizing us as a friend, International Puppetry Festival was given our support last year too since CGES perceived the real values of such projects bestowed to the youngest people of our community for four successive years, the best puppetry shows being recognized as the best performances in the region.

This is not all. We also supported Cultural Education Centre "Little Stars" from Podgorica within the implementation of the project "Little Stars with you for 30 years".

Besides, our company granted one-time aids to many pedagogical and educational institutes, as well as to talented individuals deserving social attention helping them during schooling and professional development outside our country.

Regulatory Framework

During 2015, regulatory framework has not significantly changed compared to the previous year. Running in the spirit of the preparation of a new Energy Law, i.e. transposing the third package of EU regulations into national legislation, and with respect to relations with Energy Regulatory Agency, the year was marked by the implementation of interim decision on prices for use of transmission system and adoption of decision on revenue and prices for 2016 set as one-year regulatory period.

With the aim of developing a clear and foreseeable regulatory framework and improving the regulatory process, the Energy Regulatory Agency decided as early as 2011 to apply multi-year regulatory periods. By analysing the same process of setting regulatory allowed revenue and corrections during the regulatory period, along with consultations with energy undertakings, it has been noted the need to relate the regulatory year, as well as a twelve-month period within the multi-year regulatory period, to the calendar year, all for the purpose of a continuous improvement and more efficient carrying out of the mentioned process.

Since the first regulatory period ended on 31 July 2015, and pursuant to Article 27a of the Methodology for setting regulatory allowed revenue and prices for electricity transmission system use („Official Gazette of Montenegro", no. 2/12, 12/12, 61/13, 34/14 and 32/15) stipulating that the second regulatory period is set as one-year period beginning from 01 January 2016, pursuant to Article 52 paragraph 7 of the Energy Law the Agency set interim prices which the Company is obliged to apply in a monthly billing period when invoicing services of transmission capacity use to electricity producers connected to transmission system for each month in the period between 01.08.2015 and 31.12.2015.

Interim price for transmission capacity use paid by electricity producers connected to transmission system is set in the amount of 764,077€/MW/month.

Interim price for transmission capacity use is set in the amount of 1,7181 €/kW/month.

Interim price for allowed electricity losses in transmission system is set in the amount of 0,1405 c€/kWh.

The monitoring process over energy undertakings is carried out by the Agency on a quarterly basis, which represents a mechanism for monitoring the movement, i.e. trend, of both energy and financial parameters of CGES. The Energy Regulatory Agency, together with close collaboration of energy undertakings and interested parties, continuously improves the regulatory framework in the energy sector thus creating preconditions for development, stability and efficient functioning of the electric power sector in whole.

Corporative Management

Shareholders Assembly

The Shareholders Assembly is the highest body of a Company. The competences of the Assembly are provided for by the Companies Act and By-Laws of the Company. The shareholders, through the assembly, pass and approve the most important acts, property, election and status related decisions. During 2015, a general annual Shareholders Assembly and one extraordinary session were held.

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 VI general Shareholders Assembly held on 1 October 2015, the Board's elected member were Dragan Laketić (Chairman), Vesna Bracanović (member), Igor Noveljić (member), Ibrahim Bećiragić (member) acting as representatives of the State, Luigi de Francisci (Vice Chairman), Claudio Marchiori (member) acting as representatives of Terna Rete Elettrica Nazionale S.p.A. and Lazar Janinović (member) who is a representative of minority shareholders.

During 2015, the Board held six sessions and had five off-session declarations.

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

Members of the Board are entitled to remuneration for their work in the Board, which

is determined by the Decision of the Shareholders Assembly and harmonized with relevant regulations and decrees of competent national authorities.

Secretary of the Company

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

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

Management

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

Executive Director

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

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

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

The position of Executive Director of CGES is held by Ivan Bulatović.

Management Team

The Board of Directors determines the management structure and appoints management member at the proposal of the Executive Director. During 2015, the positions of directors within the Company were held by Branko Stojković, Director of National Dispatch Centre, Branko Knežević, Director of Elektroprenos, Valerio Mastragostino, Director of Department for Financial Planning, Control and Investor Relations and Željka Hidić, Director of Department of Economic Affairs.

Transparency of Business Operations

The practice of the Company includes 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 web site and means of public information.

Salaries and Remunerations

Salaries

During 2015, 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 is 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 members are limited to one average monthly salary according to the same Conclusions..

Short-term and long-term bonuses

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

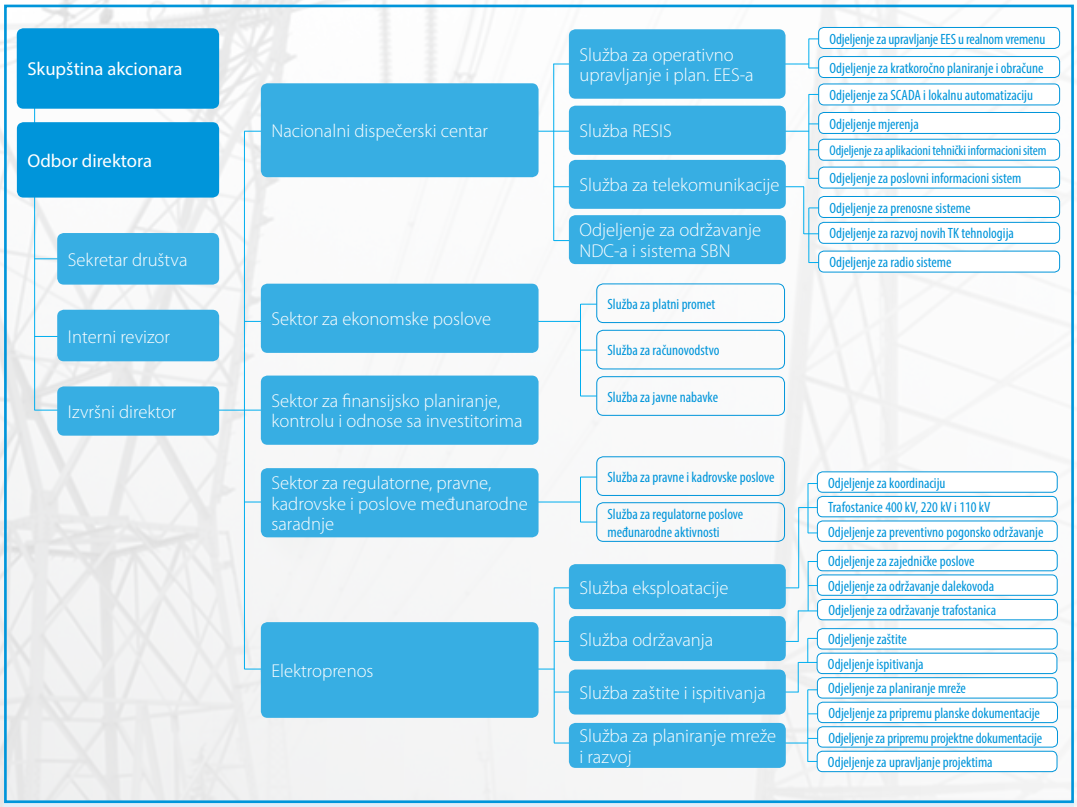


Figure 15- CGES Organizational Chart

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, 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 the foundations 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.

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.

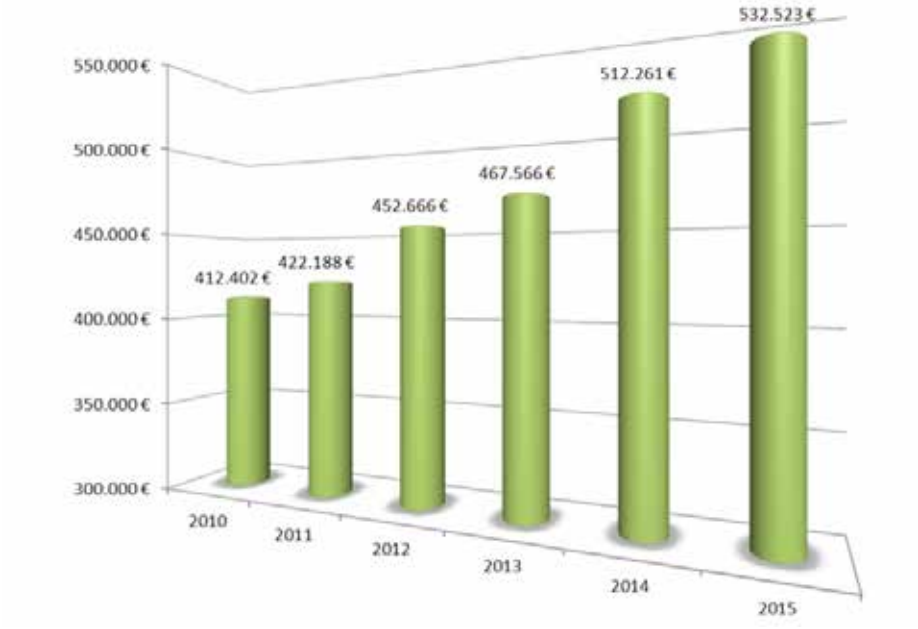


Figure 16- Value of assets per employee [€] in the period between 2010 and 2015

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.

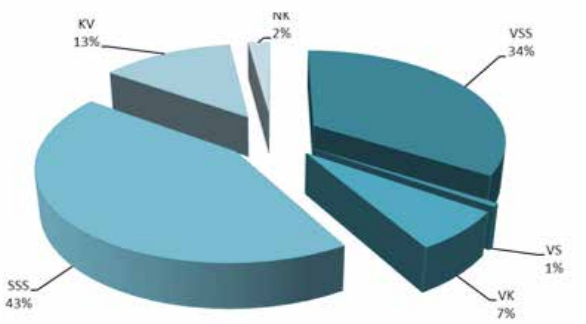


Figure 17 - Professional qualification structure of employee

Workplace Safety and Health

Within permanent Company's activities in ensuring adequate workplace safety and health measures for employees during 2015 many workplace 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 205 employees;
- 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;
- Purchase of personal protective equipment (winter overalls, helmets, thermal gloves, and equipment for millwrights);
- Testing of work environment conditions two times in summer and winter period;
- Inspection and service of firefighting extinguishers and hydrant networks and reconstruction of outdoor hydrant network in SS Podgorica1;
- All CGES facilities were visited and overhead line teams with the aim of getting insight in the conditions and control of implementation of workplace safety and health measures;
- Training and exam completion for internal auditor for the quality of workplace safety and health (OHSAS 18001);
- Updating of records relating to workplace safety and health.

During the year, one severe and four light workplace injuries were recorded.

Financial Statement

Profit & Loss

The financial statements for year 2015 show a profit of 4,0 Mln €...

Revenues amount to 32,5Mln €, mainly related to transmission network usage (18,0 Mln €), capacity allocation (5,5 Mln €) and transmission losses (5,3 Mln €).

Operating expenses reached 20,1 Mln €, mainly due to personnel costs (6,5 Mln €) and transmission losses (5,3 Mln €).

EBITDA (earnings before interest, taxes and depreciation) is equal to 12,4 Mln € and the margin reaches 38%.

P&L

	EoY 2015	EoY 2014	2015 vs. 2014
€ mil			
Transmission revenues	18,0	21.6	(3,5)
Transmission losses	5,3	6.4	(1,1)
Congestion revenues	5,5	7.0	(1,4)
Ancillary system balancing revenues	2,5	1.9	0,6
Other revenues	1,1	2.0	(0,9)
Total Revenues	32,5	38.8	(6,3)
Personnel	6,5	6.3	0,2
Material	0,3	0.3	(0,0)
Third party	1,9	1.3	0,6
Ancillary system balancing costs	3,2	2.6	0,6
Other	2,8	2.7	0,2
Transmission losses	5,3	4.6	0,7
Opex total	20,1	17.8	2,2
EBITDA	12,4	21.0	(8,6)
Margin	38%	54%	-16%
D&A	7,1	6.7	0,4
EBIT	5,4	14.3	(8,9)
Margin	17%	37%	-20%
Net Financial expenses	0,9	0.9	(0,0)
Financial revenues	0,3	0.1	0,2
Financial expenses EBRD	0,3	0,3	(0,0)
Financial expenses KfW	0,0	0,0	(0,0)
Financial expenses Revolving facility	-	-	-
Financial expenses other debt	0,9	0,7	0,2
EBT	4,5	13.4	(8,9)
Taxes	0,5	1.2	(0,8)
Net income	4,0	12.1	(8,1)

Transmission usage network revenues:

- **Revenues from distribution:** Lower than 2014 (-4.2 mln €) mainly due to lower tariff effect (-4.6 mln €, -31%) slightly compensated with higher network use (+0.4 mln €, +4%).
- **Revenues from producers** Higher than 2014 (+0.7 mln €) due to higher tariff effect.

Transmission losses*: Lower than 2014 (-1.1 mln €) mainly due to lower ITC revenues (-1.4 mln €).

Congestion revenues: Lower than 2014 (-1.4 mln €) mainly due to lower congestion on Albanian border.

Other revenues: Lower vs previous year (-0.3 mln €) mainly due to:

- Extraordinary revenues + previous years (-1.1 mln €);
- Revenues from premiums (-0.2 mln €); compensated with
- Revenues derived from ancillary and system balancing (+0.6 mln €);
- Revenues from optical fiber (+0.3 mln €).

Other non-production revenues from the reduction of commitments (+0.1 mln €) (facilitation of 6% on income tax).

Operating expenses +2,2 Mln € mainly due to differences in the following items

Services and other costs (including Ancillary services): +1,4 Mln € mainly due to higher

- ancillary system balancing services (+0.7 mln €);
- reservation of capacity allocation (+0.4 mln €);
- cost for optical fiber in the network (+0.2 mln €);
- costs of other non-production services (+0,2 mln €)**;
- costs from previous years (+0.1 mln €);
- maintenance costs (+0.1 mln €);

compensated with costs of provisions for retirement severance pay (-0.3 mln €).

Transmission losses: (+0.7 mln €) mainly due to higher domestic losses.

Personnel cost: (+0,2 mln €) Headcount as end of year 2015 is 329 FTE (+4 FTE vs. 2014).

Depreciation and amortization: (+0,4 mln €) due to investments entered into operation.

Net financial expenses

Actual Net financial expenses are lower vs. previous year due to higher financial revenues as a result of higher short term deposits in the last Q2014, partially compensated by higher financial expenses due to new withdrawals for KfW II in 2015 loans.

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 (-0,8 Mln €) due to lower EBT.

Net income: Actual vs. previous year (-8,1 Mln €) due to lower EBT.

** including ITC*

*** additional expenses from 2015 for regional initiatives imposed by ENTSO-E and Energy community (Auction office for South-East Europe (SEE CAO - Podgorica) and Regional security Center (RSCI Belgrade*

Balance Sheet

Balance sheet	EoY 2015	EoY 2014	EoY 2015 vs. EoY 2014
€ mil			
Assets	175.2	166.5	8.7
Working Capital	11.8	12.9	(1.2)
Funds	2.1	2.1	0.0
Net Invested Capital	184.8	177.3	7.5
Shareholders Equity	176.7	172.7	4.0
Paid in capital	155.1	155.1	-
Reserve	(0.0)	(0.0)	-
Carried forward results	21.6	17.6	4.0
Net income from previous period	17.6	12.0	5.6
Current net income	4.0	12.1	(8.1)
Dividends	-	(6.6)	6.6
Net Debt	8.1	4.6	3.5
Cash	31.9	32.8	(0.9)
Long term debt	40.0	37.4	2.6
EBRD Lastva-Pljevlja	12,1	10,5	1.7
KfW Lastva-Pljevlja	9,0	6,8	2,2
Revolving facility	-	-	-
Other debt	18,9	20.2	(1.3)
Short term debt	-	-	-
Dividends	-	-	-
Total liabilities	184,8	177.3	7,5

Net Financial Debt

Actual vs. end of 2014: +3.5 mln € mainly due to investments in A&A infrastructure funded with loans (3.9 mln €) and lower cash position (-0.9 mln €) caused by negative operational cash flow.

Cash Flow

CASH FLOW	EoY 2015	EoY 2014
€ mil		
Initial balance	32,8	37,7
EBIT	5,4	14,3
Taxes	0,5	(1,2)
Depreciation	7,1	6,7
Delta WC	1,2	(6,2)
Delta funds	0,0	(0,0)
Delta capex	(15,8)	(19,4)
Terna CG expropriations	-	0,0
Total Operational	(2,6)	(5,9)
Financial expenses	(0,9)	(0,9)
Variation of EBRD loan	1,7	10,5
Variation of KfW loan	2,2	-
Revolving facility variation	-	-
Current Debt increase/amortization	(1,3)	(1,5)
Total Financial	1,7	8,0
Capital injection/reduction	0,0	(0,5)
Dividends	-	(6,6)
Remittances/injection	0,0	(7,1)
Total	(0,9)	(4,9)
Final Balance	31,9	32,8

Membership on the stock exchange and shares of CGES

From 7th of 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 the terms of the corporate culture.

On the graph below is shown the trend of the company's shares, which shows an increase from € 0.66 per share at the beginning of the year to € 0.95 per share, as was the value of 31/12/2015.

Auditor's Report

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TRANSLATION

TO THE SHAREHOLDERS OF

CRNOGORSKI ELEKTROPRENOSNI SISTEM AD, PODGORICA

Independent Auditor's Report

We have audited the accompanying financial statements of Crnogorski elektroprenosni sistem AD Podgorica ("the Company"), which comprise the statement of financial position as at 31 December 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion the financial statements present truly and objectively, the financial position of the Company as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with applicable Law on Accounting and Audit of Montenegro.

Emphasis of Matters

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

The Company did not recognize liabilities towards EPCG in relation to the system reserve employment for charges claimed by EPCG to the Company between 1 January 2013 and 1 October 2013 in the amount of EUR 8,133,148 as there is no legal or contractual basis for these charges. In the Article 18 of the Budget Law for 2016 is prescribed that the income arising from the ownership and realized profits of legal entities owned by the state of Montenegro in the energy sector in 2016 can be used for regulation of mutual debtor - creditor relations between these entities and for the new investment in these entities.Taking into consideration the cited article, it can be expected that the Government of Montenegro, will thoroughly consider the possibility of resolving the issue through legal mechanisms.The Company and EPCG initiated a law suit before the Commercial Court of Montenegro.

In accordance with the Decision of Regulatory Agency for Energy (RAE) related to approving the fees and charges paid by electricity producers connected to the transmission system for the use of transmission capacity No. 14/358-17 dated 8 August 2014 the Company invoiced to EPCG for usage of transmission capacity in the period from 1 January 2014 to 31 July 2015. Through debt enforcement the Company collected receivables from December 2014 and as at 31 December 2015 the total uncollected amount is EUR 12,253,135. EPCG did not accept to sign the Treaty on the Transmission network for electricity producers and did not pay the related invoices, and for the same matter proceedings are in progress before the Commercial Court of Montenegro. The Agency informed the Company in Memo No. 15 / 02-6 dated 27 March 2015, although Decision was made in accordance with the Energy Law, if the Constitutional Court reached a decision that provisions of Methodology for above Decision are illegitimate, the Agency would compensate mentioned amount through its mechanism of correction.

Podgorica, 19 May 2016

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor

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

Podgorica, 19 May 2016

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor