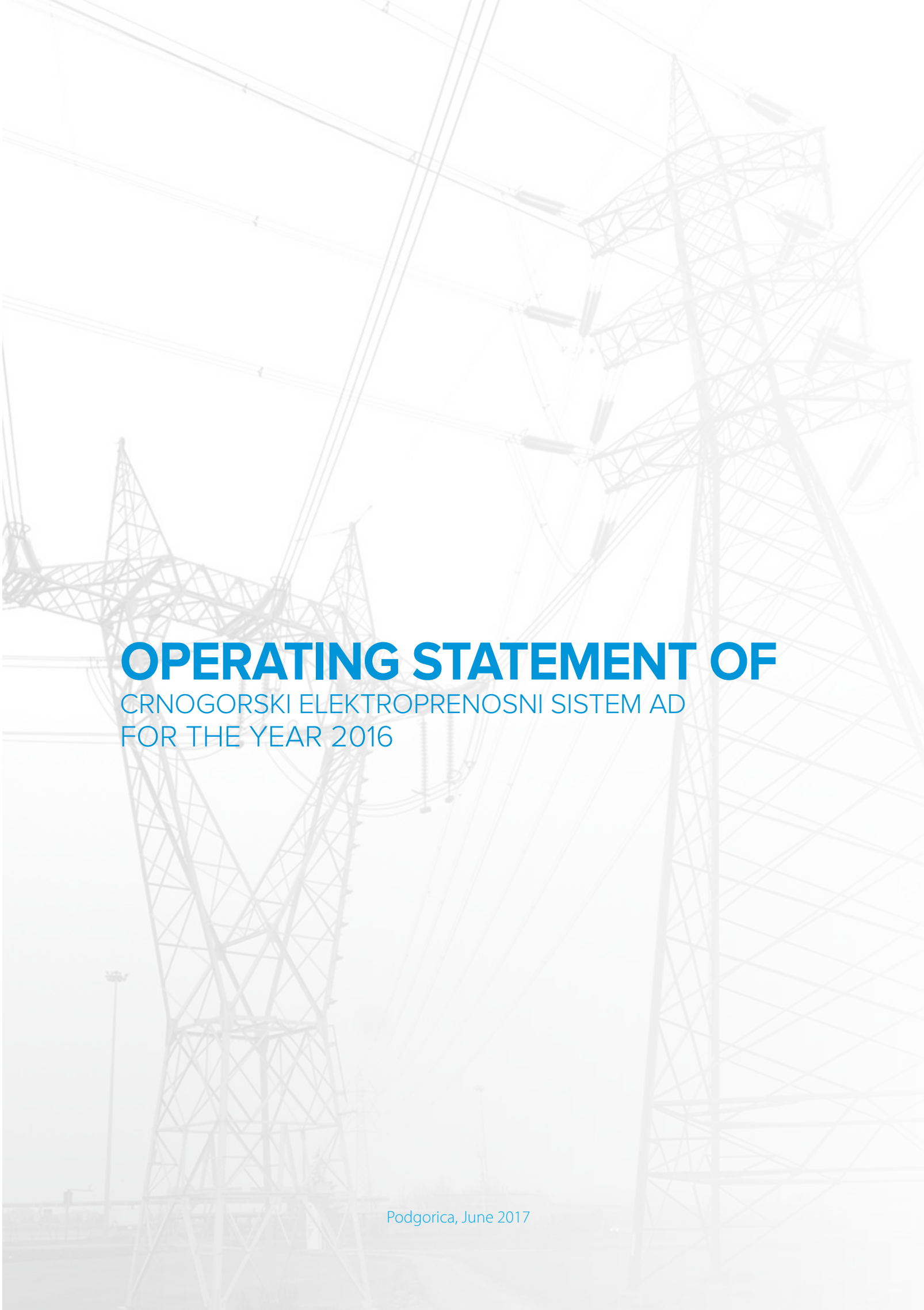
CRNOGORSKI ELEKTROPRENOSNI SISTEM

OPERATING STATEMENT OF

CRNOGORSKI ELEKTROPRENOSNI SISTEM AD
FOR THE YEAR 2016

Podgorica, June 2017



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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,

Following longstanding business philosophy of bringing investment activities into focus of our business activities, we have managed to end 2016 with record amount of implemented investments in a year worth over 30 million euro. This figure gains in importance when we recall the 2015 Operating Statement, in which we emphasized that we established a steady amount of project implementation between 15 and 20 million euro at annual level compared to three to six million euro of annual project implementation during the first years following the establishment of CGES. It further gains in importance taking account of the fact that in 2016 we took, I daresay, a decisive step in the construction of the infrastructure under Project Coordination Agreement for undersea interconnection between Montenegro and Italy. Besides, among other things, we managed to compete two very complex projects which have significantly contributed not only to safe power supply of consumers in the area of Kotor and Nikšić but also to better performances of transmission grid in Montenegro. If we additionally mention two significant indicators showing we ended 2016 with positive business results and achieved a significant increase in the value of fixed assets, I am confident that we can consider the year 2016 as another successful year for Crnogorski elektroprenosni sistem.

In order to meet target goals and achieve business ambitions to the benefit of public interest and CGES' shareholders, we are endeavouring to strongly initiate solutions that will contribute to improving regulatory framework and underlying preconditions concerning preparation and authorization of investment projects, which need to ensure more efficient and effective project implementation. Institutional support is one of decisive factors that should lead to targeted business environment. Besides, institutional support is needed to overcome years-long undermined business relationships between energy undertakings, which encumber business operations of each undertaking individually to a greater or lesser extent to the detriment of public interest and interests of shareholders, thus the entire Montenegrin economy as well.

Despite all this, I believe CGES is on the right way, for which we receive acknowledges from both domestic and international addresses. We continue to make significant contribution to regional and European energy integration and development of electricity market at local and regional level. We continue to give special attention to staff advancement and education that should be a guarantee for secure development and good results in the future.

This time again I would like to thank all who constantly contribute to good, and in some segments, even impressive business results of Crnogorski elektroprenosni sistem. Naturally, I would single out CGES' employees, particularly management team, as well as colleagues from the Board of Directors.

Ivan Bulatović
Executive Director

Foreword by the Executive Director

Dear Shareholders, I am going to share with you the key indicators of the operation of Crnogorski elektroprenosni sistem in 2016. We managed in this year also to continue strengthening the activities of our company, as evidenced by the results achieved. I would like to start with a few key remarks regarding the Report pointing out to the indicators, singled out from the very beginning as directions in the company moves. We have continued to record a positive business result, above the planned under the Budget and the Business Plan despite the fact that it was generated in a very difficult and unfavorable business environment. I am pleased to indicate that since its establishment the Company has achieved a record performance in terms of investments, over 30 million € reaching a value of 198 million euros.

The achieved results are encouraging to us showing that we are ready and able to respond to every challenge and take advantage of any arising opportunity. I draw your attention to the events that certainly stand out from the rest. Here, first of all, I am referring to the significant success of the Company, which, with the support of the Ministry of Economy, managed to secure a grant of EUR 25 million for projects related to the construction of the Trans -Balkan Corridor- Section Montenegro. Namely, full financing was provided from the funds of the pre-accession program of the European Union for the 400 kV transmission line „Bajina Bašta-Pljevlja", as well as for a number of projects that are directly related to the aforementioned.

We finished works on two completely new facilities in the so-called GIS technology - SS 110/35/10 kV „Kotor" and SS 110/10 kV „Klicevo".

Moreover, ENTSOE carried out compliance control of our system with the European one which showed full compatibility with European standards.

In addition the power facilities maintenance plans were realized in a high percentage enabling reliable operation and quite satisfactory operational readiness thereof. The available data show that the cross-border capacity was 100 percent available in 2016.

Regarding the transferred energy during this calendar year, it is important to point out that there is a certain decrease of 5.73 TWh in relation to 2015. The reason could be found in poor hydrological conditions and lower transit, translated in percentage of 0.74%, and as such is lower than in 2015. There was also a significant decline in congestion revenue compared to last year.

In 2016, Crnogorski elektroprenosni sistem made a significant contribution to the creation and preparation of legal documents such as Energy Law and the Law on Cross-Border Exchange, which came into force in the same year.

When it comes to financial results for 2016, CGES achieved a net profit of 2.4 million euros.

I cannot but stress as particularly important, that in 2016 we accelerated the activities related to the construction of associate submarine cable infrastructure and interconnection with Italy, in all three parts of the project. Despite the problems that were expected for such complex investment projects, the works were carried out on all three construction sites. We achieved financial realization of 22 million euros.

Our strategic partner, Terna, this year has commenced a submarine cable laying in the Adriatic sea which represents huge progress in the realization of this valuable investment.

In addition to all the presented results, I believe that we have done a significant part in the field of corporate social responsibility, in accordance with the procedure and budget, as well as the intention to be recognized as a company that takes care of the community in which it operates. We succeeded in doing this, which is proven by the voice of the public through awards and numerous received.

Crnogorski elektroprenosni sistem is a company with highly developed environmental awareness, present both in the process of the transmission network development planning and in the regular operation and maintenance of the transmission system as well.

Apart from that, the social responsibility of CGES is reflected in the concern for the safety and health of employees and during thus year we paid special attention to the occupational safety and health, through the purchase of adequate HTZ equipment, etc.

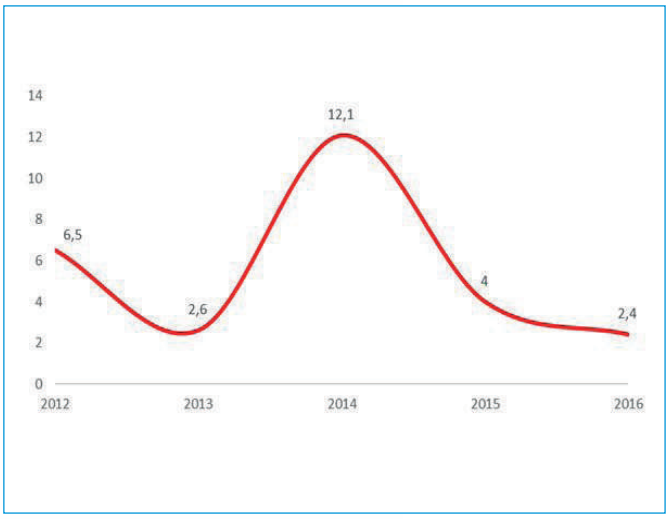
Finally, there is obvious progress in many business segments in 2016, which is, above all, the result of invested knowledge, skills, creativity of employees whose working engagement has been tied to Crnogorski elektroprenosni sistem.

CONTENT

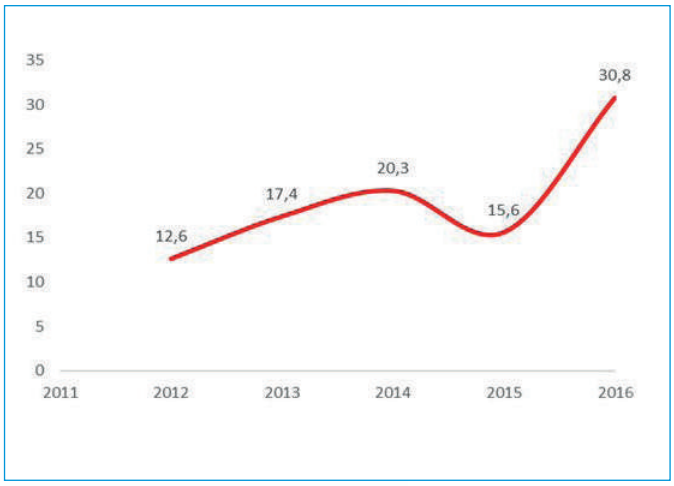
2016 Key indicators

Corporate data

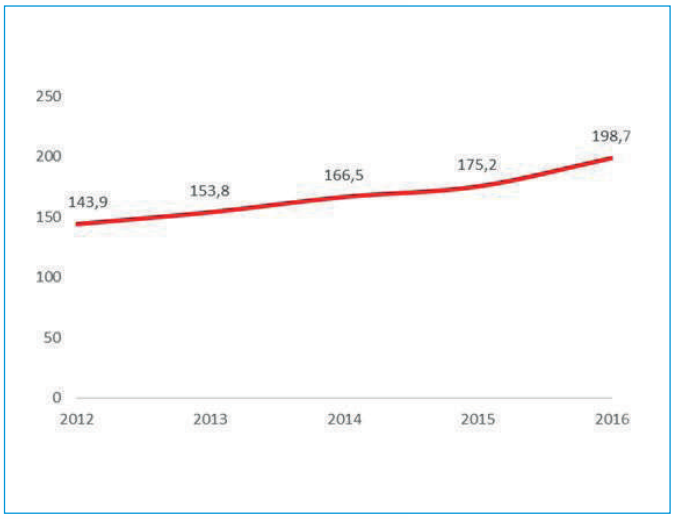
Despite the unfavourable business environment, CGES eighth year in a row, from the spin-off into a separate legal entity, CGES achieved a positive business result – by showing a net profit in the amount of 2.4 million €.



During 2016 we achieved record level of project realization in the amount of over 30 million €.



I CGES continued in 2016 to develop the system following the permanent consumer demands for quality of el. energy, as reflected in the achieved value of CGES assets of 198.7 million €.



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.

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

Foundation and Development

Experience of the Company in performing the core activity is based on the multi-decennial work in various organizational forms since the construction of the first transformer station of the transmission network in Montenegro – TS 110/35kV "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 The 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 Shareholder'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 ratio110/x kV. The transmission line network of electricity transmission system consists of:

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

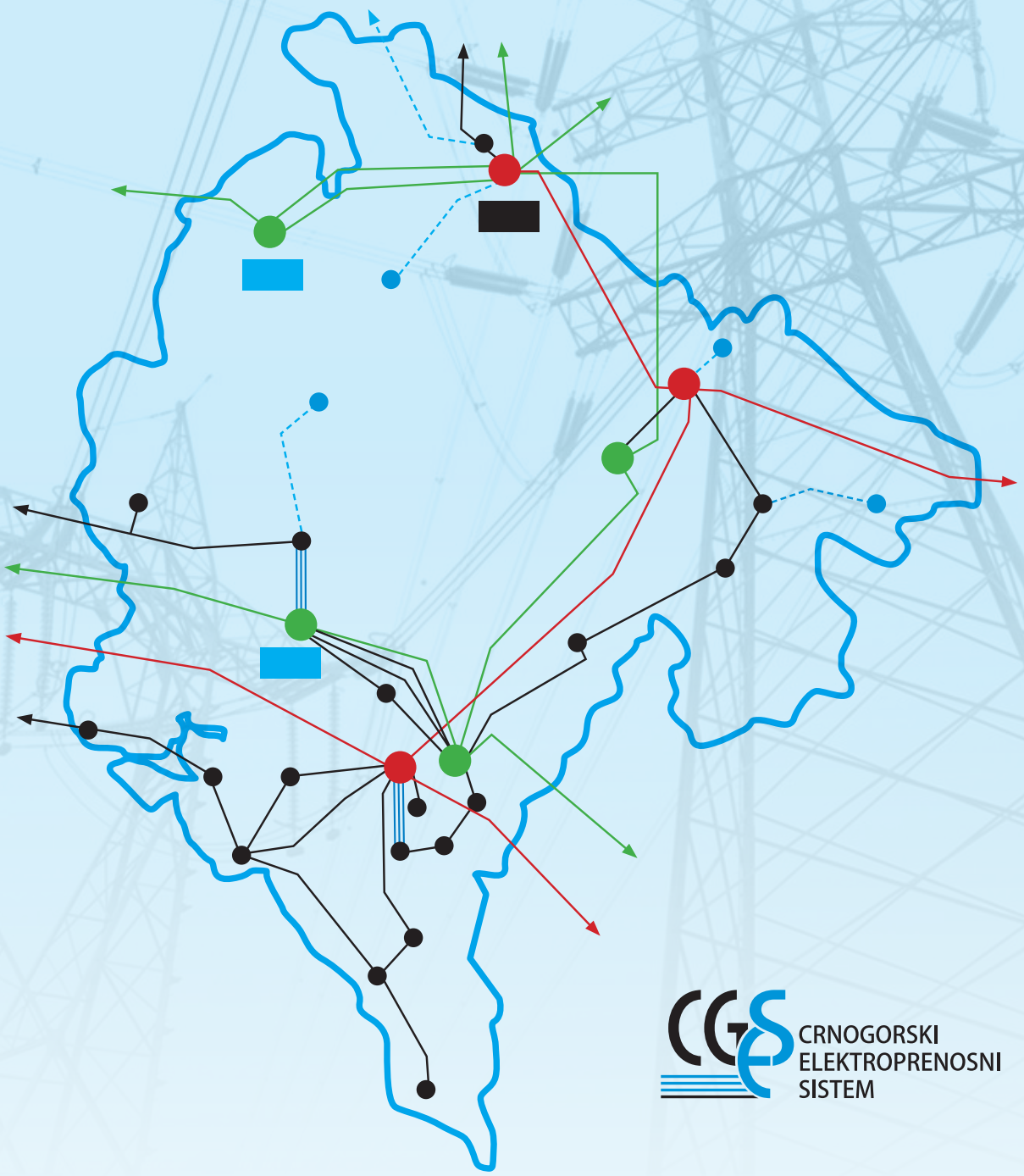
Such constructed transmission network ensures good connection of Montenegrin network with neighboring systems at all the three voltage levels; therefore, the system of Montenegro is connected with neighboring electric power systems as follows:

- With electric power system of Serbia via 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, via one 400 kV OHL "Ribarevine – Peć";
- With electric power system of Bosnia and Herzegovina via one 400 kV OHL ("Podgorica 2 – Trebinje"), two 220 kV OHL (HPP "Perućica - Trebinje" and HPP "Piva – Sarajevo"), and with two 110 kV OHL (H. Novi – Trebinje and Vilusi/Nikšić - Bileća), one 110 kV OHL Pljevlja- Čajniče, operating at 35 kV; and
- With electric power system of Albania via 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 3	53,1	79,9
	4	Ribarevine - Pljevlja2	54,8	54,8
	5	Podgorica - Albanija	29,3	156
		UKUPNO	283,3	464,8
220kV overhead lines	1	Perućica-Trebinje	42,5	63,2
	2	Podgorica 1-Perućica	34,1	34,1
	3	Podgorica 1-Albanija	21	65,6
	4	Podgorica 1 - Mojkovac	72,1	72,1
	4	Mojkovac -Pljevlja 2*	44,9	81,6
	6	Piva-Pljevlja 264	49,8	49,8
	7	Piva-Pljevlja 265	49,6	49,6
	8	Piva-Lukavica(Buk Bijela)	23,4	25
		UKUPNO	337,4	441
110kV overhead lines	1	Podgorica 2-Virpazar	30	30
	2	Virpazar - Bar	16,4	16,4
	3	Podgorica 2-Budva	36	36
	4	Podgorica 1-Podgorica 3	3,9	3,9
	5	Podgorica 2- Podgorica 4	3,5	3,5
	6	Podgorica1-Podgorica2,I	5,8	5,8
	7	Podgorica1-Podgorica2,II	5,9	5,9
	8	Podgorica 2 – Podgorica5	11,7	11,7
	9	Podgorica 2 – Kap,II	8	8
	10	Podgorica2-KAP, III	8,1	8,1
	11	Bar - Budva	33,4	33,4
	12	Bar - Ulcinj	23,7	23,7
	13	Budva - Cetinje	11,5	11,5
	14	Budva-Tivat	17,4	17,4
	15	Podgorica2-Cetinje	31,7	31,7
	16	Tivat-Herceg Novi	20,7	20,7
	17	HercegNovi- Trebinje	15,6	30,8
	18	Perućica - Danilovgrad	17,1	17,1
	19	Perućica-Nikšić 3	13,5	13,5
	20	Podgorica - Danilovgrad	17,6	17,6
	21	Podgorica – 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-otcjep - Vilusi	0,5	0,5
	29	Kličevo - Brezna	31,4	31,4
	30	Tivat - Kotor	5,9	5,9
		UKUPNO	546,8	565,9
110kV cables	1	Podgorica 3 - Podgorica 5	3,6	3,6
	2	Kličevo - Nikšić	4	4
		UKUPNO	7,6	7,6
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
		UKUPNO	45,4	45,4
110kV overhead lines	1	Pljevlja 1 - Čajniče	20,8	25,8
	2	Pljevlja 1 - Žabljak	38,5	38,5
	3	Berane - Rožaje	24,1	24,1
	4	Ribarevine - Nedakusi	8,6	8,6
		UKUPNO	92	97
		THE TOTAL AT ALL VOLTAGE LEVELS	1312,5	1621,7

Electricity transmission system of Montenegro as of 31 December 2016



CRNOGORSKI ELEKTROPRENOSNI SISTEM

400KV dalekovod
220kV dalekovod
110kV dalekovod
110kV dalekovod koji radi pod 35kV

Trafostanica 400/x
Trafostanica 220/x
Trafostanica 110/x
Hidroelektrana
Termoelektrana

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

No	Substation	No. of SS.	power (MVA) with number of transformers.	Σ 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	229 (40+63+2x63)	229
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 Podgorica3	2	71,5 (40+31,5)	71,5
15	TS 110/10kV Podgorica4	2	80 (2x40)	80
16	TS 110/35KV Berane	2	40 (2x20)	40
17	TS 110/35kV Pljevlja1	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
22	TS 110/10kV Kličevo	2	63 (31,5+31,5)	63
23	TS 110/35kV Kotor	2	40 (20+20)	40
TOTAL:		**51**		**3526,5**

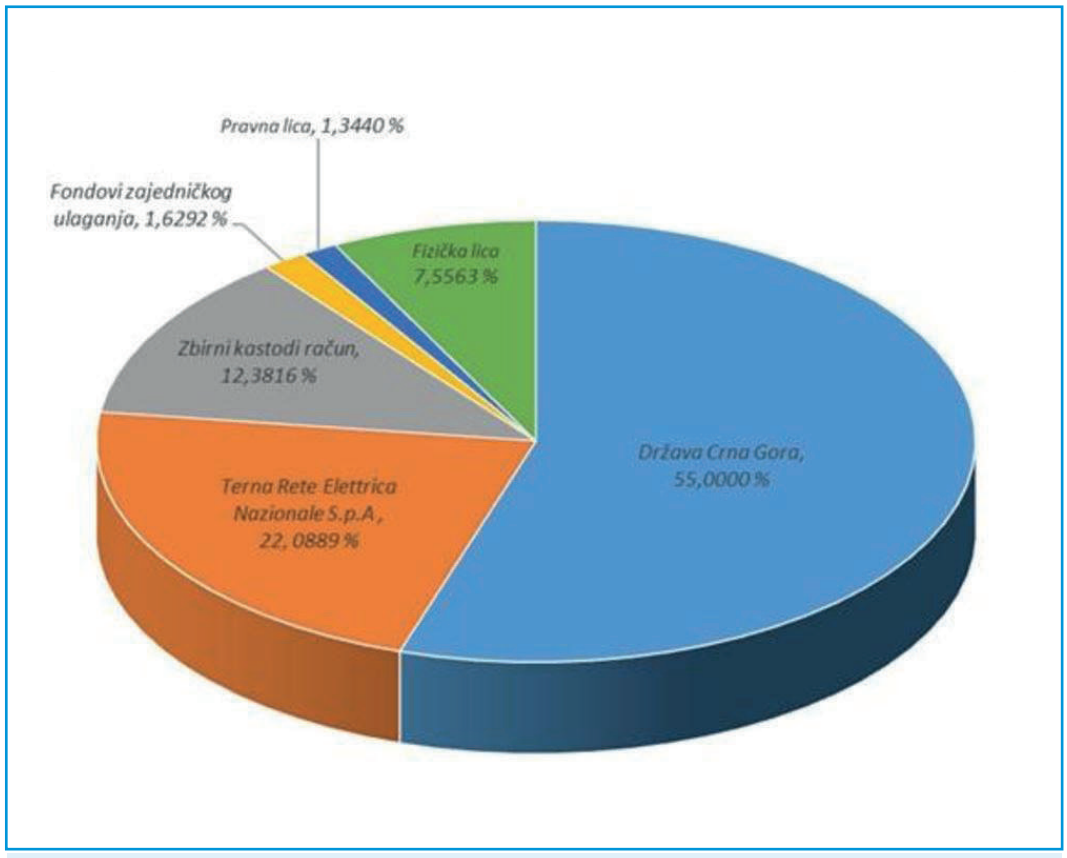
Table 2: Substations in ownership of Crnogorski elektroprenosni sistem AD.

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 in order to be granted an access to cross-border transmission capacity.

Ownership Structure

The total number of Company's shareholders as at 31 December 2016 was 7,642. 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% share. As of 31 December 2016 natural persons hold 7,5563 % shares, joint venture funds 1,6292 %,, custody accounts 12,3816 %, while other legal persons hold 1,3440 % of the Company's shares.



Graph 2
Ownership Structure of CGES as of 31 December 2016

Interest of CGES in Equity of Other Companies

As of 31 December 2016. 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.

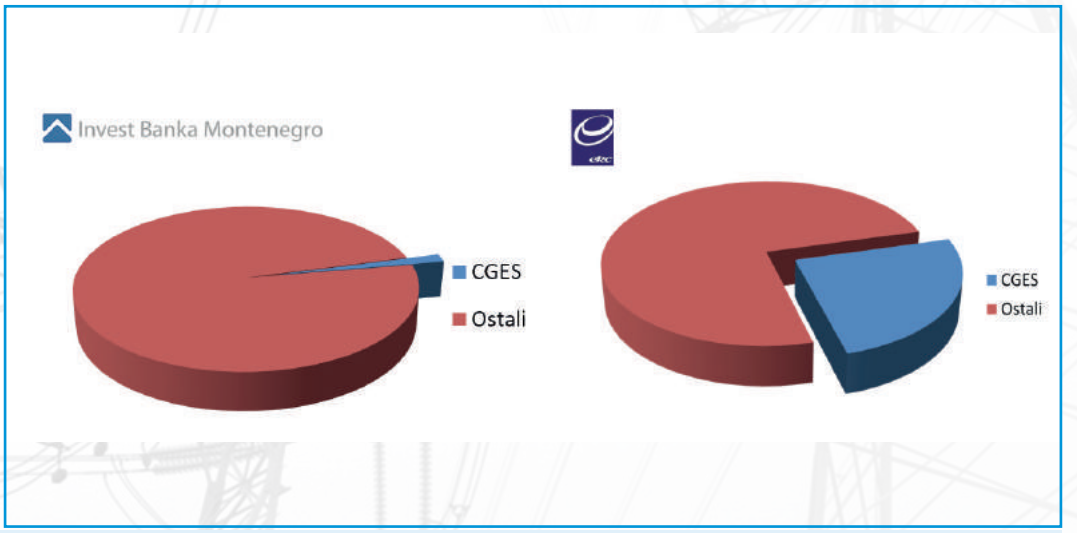


Chart 3 -
Ownership interest of CGES in Invest Bank

Chart 4 -
Ownership interest of CGES in EKC EKC-u

Kancelarija za koordinisane aukcije u Jugoistočnoj Europi – Coordinated Auction Office in South East Europe d.o.o. Podgorica (hereinafter: SEE CAO) was founded at the initiative of the transmission system operators from the SEE .

Task of the SEE CAO is implementation of Regulation (EC) No. 714/2009 of the European Parliament and Council of 13 July 2009 on the rules for access to the network for cross-border exchanges in electricity and Regulation (EC) No 1228/2003, or to act as a central point for organizing auctions for cross-border capacity allocation at borders between Member founders. The founders of SEE CAO are 8 regional transmission operators (including CGES), for which SEE CAO conducts annual, monthly and daily explicit coordinated auctions on 6 borders (including borders Montenegro - Albania and Montenegro - Bosnia and Herzegovina).

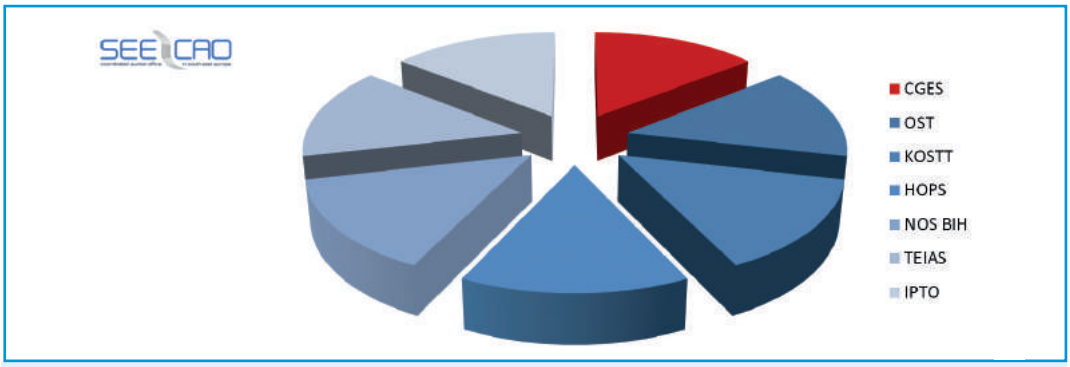


Chart 5
Ownership interest of CGES in SEE CAO

By complying with decision of competent authorities of ENTSO-E and seeking to prepare itself timely for application of standards of the regional coordination 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 its seat in Belgrade. Founders of the center are equal owners, with initial capital of 34.765,00 € by each co-owner.

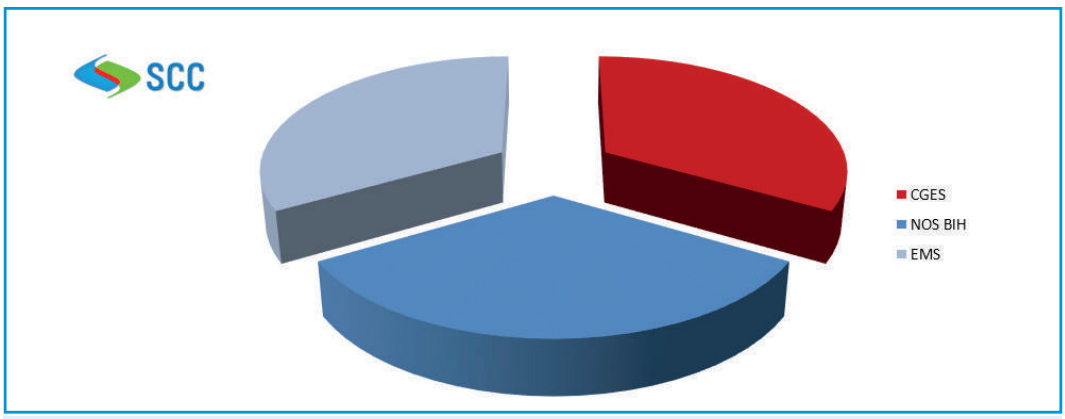


Chart 6 - Ownership interest of CGES in SCC

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

The Security Co-ordination Center using the available software packages provides the following services:

- Validation of the individual DACF and IDCF models delivered by the system operator and checking the balances of individual system operators in an integrated model,
- Connecting individual DACF and IDCF models to a common (European) network model (for each hour in the day - 24 models),
- Safety calculations on connected models (for each hour).

These services are provided by the Company to the transmission system operators, to the members of the company in accordance with individual contracts.

In addition to the aforementioned services, SCC has worked on models and security analyzes for the needs of regional co-ordination coordination in South East Europe, coordinated by CGES in 2016.

International Cooperation

Membership in ENTSO-E

CGES cooperates with the European transmission system operators within the European network of transmission system operators - ENTSO-E. The aim of cooperation, declared in the Regulation of the European Parliament 714/2009 as of 13 July 2009, is the promotion of establishing and facilitating the functioning of regional and internal electricity market of the European Union, cross-border trade, as well as ensuring optimal control, coordinated operation and appropriate technical development of the European electricity transmission system. In accordance with the legal obligation arising from full transposition of the EU regulations in the energy sector into the Montenegrin legislation, CGES has been exercising an active role in international cooperation within the ENTSO.As one of the founders of the ENTSO-E Organization, which today counts 43 members from 36 European countries, CGES seeks to implement the declared goals of the organization on the territory of Montenegro, while at the level of association it is involved in making and applying common instruments for the operation of the European interconnection, in order to ensure coordination in normal and emergency conditions.

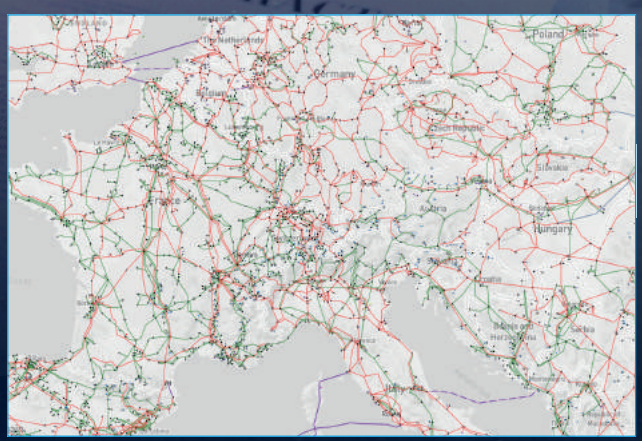


Chart 7
Part of transmission network of ENTSO-E interconnection

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.

Membership in MedTSO

Within the Association of the Mediterranean Transmission System Operators – Med TSO, CGES cooperates with transmission system operators of the Mediterranean countries. This association is founded with the aim of promoting development plans and work of electric power system of Med – TSO countries, and CGES as one of founders Med – TSO association, which has 20 members from 18 MED countries, endeavors to contribute to implementation of declared objectives, making of decisions and, work of this association.

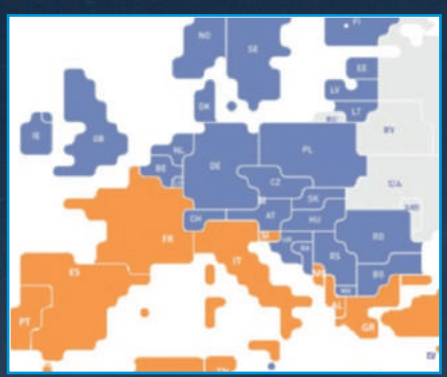


Chart 8
MED-TSO members

Highlights in 2016

January

20 January

Crnogorski elektroprenosni sistem gave an important contribution to the creation and preparation of the Energy Law, which entered into force on 20 January 2016.

June

CGES SHOWN GENEROSITY AND DONATED FUDS TO DEPARTMENT OF PEDRIATICS

08 June

Crnogorski elektroprenosni sistem participated in a fund-raising dinner organized by the Association of Parents of Children suffering from cancer „Fenix Montenegro" and Clinical Center of Montenegro, where we once again showed humanity at work and sensitivity to the youngest patients.

Appreciating the mission of the association „Fenix", mainly dedicated to children who suffer from this serious disease, but also to their parents and guardians, CGES has provided its contribution for the children who struggle with this evil disease to have better conditions for treatment.

HIGHER REALIBILITY AND QUALITY OF POWER SUPPLY IN MOJKOVAC AND KOLAŠIN

09 June

Crnogorski elektroprenosni sistem organized a ceremony to mark the completion of the project of extension of SS 220/110/35 kV „Mojkovac".

The completion of this extremely important project will ensure energy stability of Mojkovac and Kolašin municipalities.

Crnogorski elektroprenosni sistem worked dedicatedly to improve its power capacities, and as a result today we have successfully completed the second phase of reconstruction of one of the most important substation with plat extremely important for reliable power supply of municipalities Mojkovac and Kolašin.

Our company managed to complete this capital project, commissioning of which will provide a long term solution for the safe and efficient power supply of Mojkovac and Kolašin consumption areas. And not only that. Such electric power facility of high quality and performance, will set the basis for faster economic and development of this part of Montenegro.

Extension allows backup supply of consumption areas of Mojkovac and Kolašin, and decreases duration of deenergized states. The project is important in terms of ensuring the conditions for connection of renewable energy sources, and for the unhindered development other investment projects in the area of Mojkovac and Kolašin.

HIGH LEVEL OF COMPLIANCE WITH EUROPEAN OPERATING STANDARDS

24 June

Having performed technical control and checking of the fulfillment of certain technical criteria for system and system operation, the ENTSO-E System Operation Committee concluded that CGES performs its operational activities during emergencies fully in compliance with 20 standards out of the total 21, and that the application of the only one standard remaining is not fully compliant but sufficiently compliant with the related procedures within the European Union.

CGES, as a member of ENTSO-E Regional Group Continental Europe, was selected for the "on the spot" Compliance Audit in 2016 which was conducted on 10 and 11 May 2016 in the premises of CGES's National Dispatching Center.

29 June

ORDINARY SHAREHOLDERS ASSEMBLY AND NEWLY ELECTED BOARD OF DIRECTORS

VII Ordinary Shareholders Assembly Meeting of CGES was held on 29 June 2016. In addition to the decision on adoption of the 2015 Operating Statement, 2015 Financial statements with the Auditor's report, and the decision on the selection of the auditor for the year 2016, the Assembly elected members of the Board of Directors. Re-elected members are Dragan Laketic, Vesna Bracanović, Igor Noveljic, Luigi De Francisci and Claudio Marchiori. Two newly elected and appointed members of the Board of Directors are Jelena Matejić and Zoran Rakocevic.

July

01 Jul

THE COMPANY'S DAY

Crnogorski elektroprenosni sistem celebrated seven years of independent work. Seven years of full commitment to the development goals, the maximum involvement of all employees, the period of invested knowledge, effort, visible results, major investment, beautiful creations. Period of significantly visible financial indicators.

Our corporate data show that the value of fixed assets of CGES at the end of 2015 reached a value of € 175 million, which is € 9 million more than last year, and 40 million € more than in 2009. For the seventh consecutive year CGES achieved a positive operating result of showing a net profit of € 4 million, while for the last seven years the total net profit reached 35 million. In addition to significant activity in our main project, which is the submarine interconnection with Italy, the annual implementation plan for investment in the internal network in recent years exceeds 90%, which we are particularly proud of. The effect of investments, inter alia, can be observed through the permanent decrease of the total non-supplied electricity from the transmission network to the consumers in Montenegro estimated at less than 0.02% of the transferred energy. As for business efficiency, it should be noted that the value of assets per employee is growing from year to year.

06 July

SIGNING OF FINANCING-GRANT AGREEMENT

As part of the Berlin process and the Agenda for strengthening infrastructural integration of the Western Balkans, at the Vienna summit, yet in August 2015 the European Union has announced the support and willingness to co-finance infrastructure projects through the Instrument for Pre-Accession Assistance - The Western Balkans Investment Framework (WBIF). For the project „Trans-Balkan corridor (I): Section Montenegro, part 2, the state of Montenegro has been awarded a grant in the amount of 25 million €.

In July 2016, trilateral financial grant agreement between the leading international financial institutions - the German Development Bank (KfW), the state of Montenegro (Ministry of Economy) and CGES was signed thus created the preconditions for the implementation of projects of importance to the Energy Community, which are also in a PECI list of priority infrastructure projects as defined by the Government of Montenegro. It is a project of construction of a 400kV line Pljevlja–Bajina Bašta up to the state border and associated investments into the Montenegrin transmission network with interconnections towards Italy and Serbia that are important for reliable and stable operation of electricity transmission system.

11 July

SIGNED MEMORANDUM ON COOPERTION BETWEEN CRNOGORSKI ELEKTROPRENOSNI SISTEM AD PODGORICA AND FACULTY OF ELECTRICAL ENGINEERING

Memorandum on mutual cooperation between CGES and the Faculty of Electrical Engineering in Podgorica was signed in Podgorica.

Memorandum on mutual cooperation between these two institutions was signed by CGES Executive Director Ivan Bulatović and Dean of the Faculty of Electrical Engineering in Podgorica, prof. Dr Zoran Veljović.

The Memorandum represents base for mutual cooperation in the field of science, education and profession providing for definition of needs of Crnogorski elektroprenosni sistem for scientific or professional work of the staff of the Faculty of Electrical Engineering in development or revisions of studies, projects or other documents of CGES interest, and whit engagement of researchers depending on the type of document and available capacities of the Faculty.

It set up frameworks of cooperation, exchange of experience, transfer of knowledge and technology, vocational training…

October

04 October

COMMENCEMENT OF WORKS ON INSTALLATION OF SUBMARINE CABLE MONTENEGRO-ITALY

Terna, Crnogorski elektroprenosni sistem (CGES) and the Ministry of Economy organized a ceremony on the occasion of installation of power cable within interconnection Italy – Montenegro. The speakers at the event were Matteo Del Fante, Chief Executive Director of Terna S.p.A. and Milo Đukanović, Prime Minister of the Government of Montenegro.

By installing the power cable, the interconnection Italy – Montenegro shall represent a large bridge for energy between the Balkans and Europe. The power link between Italy and Montenegro is an activity of strategic European significance. It represents a junction point of exceptional importance for the European Energy Union, reinforcing the network of electric flows for integration of the entire region of the Balkans and EU through Italy.

Montenegro occupies a special place and it has a grid well connected with neighbors (B&H, Serbia, Kosovo, Albania, and through them also with Bulgaria and Romania), its strategic position guarantees its role as a platform of power exchange. As a result of intergovernmental agreement between the two countries, the European Commission included the project into project of European common interest.

November

20 November

CGES RECEIVES AWARD FOR THE CATEGORY OF 'TAKING CARE FOR THE ENVIRONMENT

Having examined and analysed the application and accompanying documents received upon the open competition "UPCG award for DOP" for 2016, UPCG Commission has decided to grant award to Crnogorski elektroprenosni sistem AD for the category "taking care of the environment".
CGES nominated the project of putting up artificial nests for Falco peregrinus. This is a unique project in Montenegro initiated by CGES in cooperation with CZIP, which gives this power company a special place and responsibility for environmental protection. This is the project of putting up artificial nests on high voltage transmission line towers with the aim of protecting Falco peregrinus. We have donated 30 houses for nesting of this rare bird to CZIP.

December

23 December

COMMISSIONING OF SUBSTATION 110/35/10 KV "KOTOR" AND 110 KV OVERHEAD LINE "TIVAT-KOTOR"

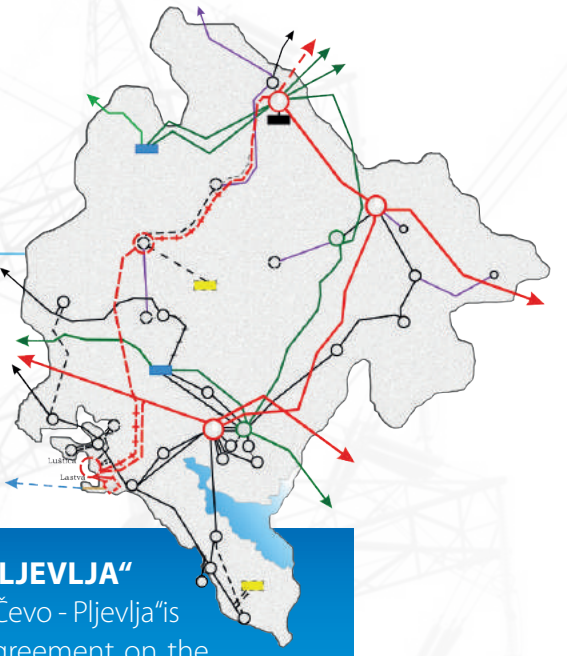
Crnogorski elektroprenosni sistem organized a ceremony to mark the completion of the construction of the new substation 110/35/10 kV "Kotor" and commissioning of 110 kV overhead line "Tivat-Kotor", wherby providing a long-term solution for the safe and efficient power supply of consumption area of Kotor. Construction of SS 110/35/10 kV "Kotor" and OHL110 kV "Tivat-Kotor" is a project of connecting one of the most important tourist centers of Montenegro to the transmission network, which will significantly enhance the safety and quality of power supply.
CGES managed to complete this capital project as scheduled. With its commissioning Kotor will get 110 kV voltage ensuring much safer power supply of this consumption area. The construction of the substation will contribute to the implementation of future development projects of the municipality.

28 December

COMMISSIONING OF SS 110/10 KV"NIKŠIĆ 2" AND110 KV CABLE LINE

Crnogorski elektroprenosni sistem organized a ceremony to mark the completion of the construction of the new 110/10 kV substation "Niksic 2" and commissioning of 110 kV cable line. This significant investment in the city under Trebjesa, will provide conditions for economic and social development, as well as the construction of other infrastructure projects. The ceremony was held at the substation "Niksic 2".The importance of the construction of the substation, with its indoor switchgear designed according to the latest GIS technology is reflected above all in a more secure and quality of power supply of Nikšić consumption area.

Technical data



Investments

During 2016 planned activities were conducted on implementation of investment projects amounting to 30.7 mln € as approved by Energy Regulatory Agency . The projects were implemented in total 30 mln.€, that is 98%.

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

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

The project includes constraction of :

- SS 400/110/35 kV„Lastva", 2x300 MVA in GIS technology;
- OHL 2x400 kV and 400 kV„Lastva – Čevo by "input-output" from SS„Lastva" to OHL„Podgorica - Trebinje" and section 400 kV OHL„Lastva - Pljevlja". OHL 400 kV from Lastva to Čevo is about 35 km long, with a parallel one single circuit (section of future OHL„Lastva -Podgorica") and one double circuit line (OHL section„Lastva -Trebinje" and„Lastva-Pljevlja")
- OHL400 kV and 400 + 110 kV„Čevo - Pljevlja", length 115 km, that is implemented as double circuit line in length 40 km from Brezani to Kosanica, (from Brezne to Njegovuđe as 400kV OHL and 110kV line section"Brezna-Žabljak" and from Njegovuđe to Kosanica as 400kV OHL and 110kV OHL section„Zabljak-Pljevlja"). Construction of this OHL will close 400kV ring in the area of Montenegro, which will increase the reliability of the power system. Within this part of the project it has been also implemented the connection of OHL Brezna-Žabljak to SS Žabljak by constructing the overhead line and SS Brezna by laying underground cable line.

In 2016 Extensive activities were carried out in relation to the design of project documentation, execution of works and settlement of property rights. Due to the scale and complexity of resolving the property relations on the OHL routes , implementation did not fully follow the contracted dynamics.

2. SCADA FOR DISPATCHING CENTRE WITH EMS SYSTEM (INCLUDING ESTIMATE OF N-1 SECURITY CRITERION IN REAL TIME) – NDC 005B

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

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

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

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

In 2016, contact was signed with the most favourable bidder for purchase of the new SCADA/EMS system. Background documents for development of main design were prepared and submitted. Development of main design commenced and revision of submitted versions was performed.

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

In 2016, development and revision of main design was completed. Installation and testing of local SCADA systems, OMKS and RTU cubicles in CGES substations commenced.

3. CONSTRUCTION OF SS 110/10 (20) KV NIKŠIĆ (KLIČEVO) AND CONNECTION LINES 110 KV (IPI 012)

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

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

SS Nikšić II (Kličevo) and 110 kV cable line: Works on construction of substation and cable line are completed and technical acceptance of facilities was carried out.

4. RECONSTRUCTION OF SS PODGORICA 2 - PURCHASE AND INSTALLATION OF TRANSFORMER 400/110 KV, 300 MVA (IPR015)

Analysis showed that from the aspect of increasing capacity of the concerned transformer station, there is no need to install a third transformer, which will be proved after entry into operation of SS 400/110 kV Lastva Grbaljska. Then it will occur a significant reallocation of load from SS Podgorica 2 to SS Lastva, and allowing such a part of consumption on the coast to be supplied. At the same time it will occur unloading of transformers in SS Podgorica 2, whereby not jeopardizing supply of KAP (transformers 400/110 kV, 300MVA in SS Podgorica 2 are loaded with less than 50% of rated power in normal operation). It is planned to replace the existing transformer 400/110 kV, 300 MVA in SS Podgorica 2, which leads to a more reliable supply of consumption. Due to a long period of operation, and confirmed by regular testing, it is evidenced the need for replacement of one 400/110 kV,

300 MVA transformer.

In 2016, tender was published for the purchase of ATR 300MVA. The State Commission for the Control of Public Procurement Procedures suspended several times the procedure due to appeal by interested bidders, which conditioned delay in project implementation.

5. CONSTRUCTION OF SS 110/35/10 KV KOTOR (ŠKALJARI) AND 110 KV OHL TIVAT-KOTOR (IPI 001)

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

Project implementation includes:

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

Construction of SS 110/35 kV Kotor:

In 2016, all planned works on the substation and functional testing were completed, and technical inspection was performed.

Installation of a new transformer of 20 MVA:

U SS 110/35 kV Kotor (Škaljari), it is envisaged purchase and installation of new transformer110/35kV, 20MVA.

In 2015, delivery, mounting and testing of a new transformer 110/35 kV, 20 MVA was performed.

Construction of OHL 110 kV Tivat - Kotor:

In 2016, all planned works on the overhead line, functional testing and technical inspection were completed.

6. PROCUREMENT OF EMERGENCY RESTORATION TOWERS (IPD004)

Specially designed modular towers, which would be used as a bypass of damaged sections and are mounted relatively quickly, need to be purchased as they are an important element in order to alleviate consequences of breakdowns. Besides this most important role, such towers allow planning repairs on the overhead line towers without the need of providing no-load condition while performing works.

In 2016, emergency restoration towers were delivered. Training for erection of the same was also performed.

7. SS 110/10 KV PODGORICA 4, ENSURING BIDIRECTIONAL 110 KV SUPPLY (IPI021)

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

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

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

OHL Podgorica 1-Budva;

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

In 2016, activities were performed on the development of main design and harmonisation of certain problems occurred during development. Acceptance testing and delivery of part of equipment – 110 kV cable were performed.

8. EXTENSION OF SS 220/110/35 KV MOJKOVAC AND CONNECTION TO 220 KV OHL PODGORICA 1-PLJEVLJA 2 ACCORDING TO THE "INPUT-OUTPUT" SYSTEM" (IPI 002)

Project implementation includes:

- Reconstruction of SS Mojkovac – forming busbar system and equipping two overhead line, one transformer, two metering and one section bay 220 kV;
- Construction of 220 kV connecting overhead line (about 2.5 km in length);
- Construction of transposition of 110 kV overhead line Bijelo Polje-Mojkovac and Kolašin-Mojkovac; and
- Installation of 110/35 kV transformers, 20 MVA.

Works on the extension of SS 220/110/35 kV, construction of new 220 kV switchyard and connection 220 kV overhead line and construction of transposition of 110 kV overhead line were completed in 2014. Technical acceptance of facilities was performed and use permit was obtained.

Installation of 110/35 kV transformer

In SS 220/110/35 kV Mojkovac exists only one 110/35 kV transformer. This represents a problem during failure of transformer or during regular maintenance because in that case the distribution consumers of the municipalities Mojkovac and Kolašin remain without power supply. For the purposes of safer power supply, it is necessary to install another 110/35 kV 20 MVA transformer.

In 2016, replacement of 110 kV circuit breakers in OHL bay Ribarevine was completed. Works on project were completed and use permit was obtained.

9. REHABILITATION OF SS 110/35 KV NIKŠIĆ (REPAIR OF CONCRETE GANTRIES) (IPR 001)

Concrete gantries in SS 110/35 kV Nikšić are in a very bad condition with high risk of breakdown and outages which would lead to several-days power supply interruption in the consumer area of Nikšić Municipality. Replacement works are planned for all concrete-reinforced gantries with steel lattice gantries. This project also includes the lightning protection which hasn't existed so far, and reflector illumination of the entire 110 kV switchyard.

Project implementation includes:

- development of technical documents;
- performance of repair works on gantries;
- construction of lightning protection and illumination for 110 kV switchyard.

Development of main design was completed in 2016. Building permit for work performance was obtained. Work performance on replacement of gantries commenced. Construction of two gantries in transformer bay T1 was completed.

10. REPLACEMENT OF TRANSFORMERS 30MVA IN SS NIKŠIĆ (IPR017)

Transformer 3x10 MVA has been into operation for over 50 years, and the existing SS Nikšić represents the main power supply point for the area of Nikšić. Transformer 110/35kV, 3x10 MVA is planned to be replaced with a new 40 MVA unit with the aim of ensuring reliable and safe power supply of consumers.

In 2016, the envisaged works in transformer bay T1 were completed. All necessary testing were performed and the transformer was put into trial operation. Works in transformer bay T2 are planned for 2017.

12. Other projects

In addition to aforementioned projects described in detail, in 2016 activities were performed also on the following projects:

- Construction of SS 110/35 kV Lušticа with connection to 110 kV network
- Construction of 110kV OHL Virpazar-Ulcinj
- Rehabilitation of 110 kV OHLs (replacement of equipment and reconstruction)
- Development, reconstruction, measurement and protection in SS
- Integral information system of TSO
- Rehabilitation of 110 kV OHL Budva-Podgorica 2
- Other investments
- Reconstruction of 110 kV OHL Lastva – Tivat - II phase
- Reconstruction of 110 kV OHL Budva – Lastva
- Hardware and software system for re-implementation of Financial Management Information System (FMIS) – DataCode
- The extension of SCADA system by module for external observation system
- Construction of 400 kV OHL Pljevlja 2-Bajina Bašta and 400 kV OHL Pljevlja 2-Višegrad
- The construction of SS 110/35 kV Zeta and 110kV OHL Podgorica5-Zeta(Golubovci)
- Construction of 110 kV OHL Vilusi - Herceg Novi
- Construction of 110 kV OHL Lastva – Kotor
- Module for the submission of data on Transparency platform r2
- Reconstruction of protection system in the entire network
- Replacement of HV equipment in substations
- SS 400/110/35 kV Brezna

Operation Department

In 2016, electrical command operators performed 12985 operations of switching equipment in 16 CGES substations.

In accordance with the 2016 Investment and Current Maintenance Plan, the following works were performed:

1.1. Earthing system testing

The following testing were performed in SS 110/35 kV Ulcinj:

- Metering of substation earthing system impedance;
- Metering of earther total voltage;
- Metering of contact voltage and step voltage;
- Metering of transferred potential from plants;
- Metering of galvanic connection of equipment parts and metal masses of plants with earther and mutually;
- Visual inspection of quality of joints and condition of anti-corrosion protection of earthing system;
- Inspection and testing of lightning rod installation of facility.

1.2. Cutting of grass, weed and other vegetation within the area of SS and proximately behind the SS fence is performed.

1.3. Disinfection, disinsection and deratization was performed in all CGES substations.

Maintenance

Substation maintenance

In accordance with the 2016 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 317 work orders, 75 of which were remedial actions.

In the reporting period, the Department for Substation Maintenance committed a total of 29 revisions and 36 overhauls of the high-voltage equipment at all voltage levels.

Voltage level	REVISION planned/realised	OVERHAUL planned/realised
400 kV	0/0	0/0
220 kV	0/0	0/0
110 kV	3/3	12/12
35 kV	26/26	22/22

Tabela 2:
Summary of activities of Department for Maintenance of Substations for 2016

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

The following HV equipment was replaced:

Equipment title	quantity
Circuit breaker 35 kV	4
Surge arrester 35 kV	2
Current instrument transformer 35 kV	21
Voltage instrument transformer 35 kV	96
Circuit breaker 110 kV	5
Surge arrester 110 kV	3
Current instrument transformer 110 kV	9
Voltage instrument transformer 110 kV	10
Circuit breaker 220 kV	2
Disconnector 220 kV	8
Voltage instrument transformer 220 kV	3
Circuit breaker 400 kV	7
Surge arrester 400 kV	15
Current instrument transformer 400 kV	11
Voltage instrument transformer 400 kV	3
Power transformer 300 MVA	1
Power transformer 40 MVA	1

Technical data

Hot spots were removed in accordance with the Report on thermal imaging survey plants submitted by the Protection and Testing Department. Of totally 19 detected hot sports, 18 were removed (1 hot sport was not removed due to the impossibility to obtain a no-load state).

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

- Recovery of consequences of the breakdown in OHL 220 kV bay Požega in SS 400/220/110 kV Pljevlja 2;
- Recovery of consequences of the breakdown in OHL 110 kV bay KAP 1 SS 400/110 kV Podgorica 2.

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

- Replacement of power transformer and 110 kV circuit breaker in transformer bay T1 300 MVA in SS 400/110 kV Podgorica 2;
- Replacement of 110 kV circuit breaker in OHL bay Perućica 2 and OHL bay Trebješica in SS 220/110/35 kV Podgorica 1;
- Replacement of 110 kV circuit breaker in OHL bay Bileća and transformer bay T1 40 MVA in SS 110/35 kV Nikšić

Overhead line maintenance

In accordance with the 2016 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 94 revisions and 19 overhauls of overhead lines. The overview of activities by voltage levels is shown in Table 3.

	REVISION planned/realised	OVERHAUL planned/realised
400 kV	10/10	2/2
220 kV	16/16	5/5
2x110 kV	4/4	1/1
110 kV	54/54	6/6
110(35) kV	10/10	2/2
∑	**94/94**	**19/19**

Table 3:
Summary of the activities of the Department for OHL Maintenance in 2016

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 780.000 m2. The transmission lines were built approximately 1.500 kg of the missing structures.

During this period, the Department for OHL Maintenance made 34 emergency remedial actions. Anti-corrosion protection was performed on the 2x110 kV Perućica – Podgorica on the section from tower no.1 to tower no.86.

On the 2x110 kV OHL Perućica-Podgorica, it was performed a replacement of insulators and suspension equipment on the 41st tower. Replacement of suspension equipment and insulators was performed on towers no. 6, 20, 29, 33, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 49, 50, 52, 53, 54, 55, 57, 58,59, 60, 61, 62, 64, 66, 67, 68, 71, 72, 73, 75, 76, 77, 78, 79, 80, 82 and 87.

Replacement of broken-down cross-arms on towers no. 74 and 77 on 110(35) kV OHL Pljevlja – Čajniče was performed.

Emergency restoration towers were used for the first time. They were used for the repair of tower no. 52 on the 110 kV OHL Berane –Ribarevine. By using them, it was done a bypass on tower no. 52 and it was allowed to perform repair of this tower until the overhead line is in operating state.

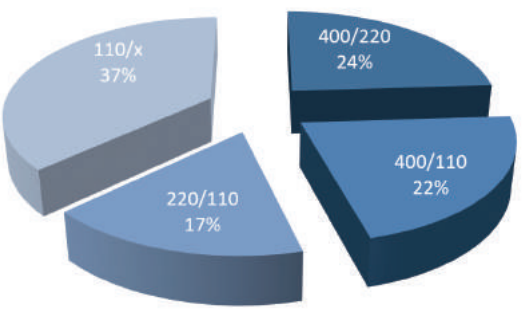
The employees of the Department also performed a range of other activities, such as managing and participating in several investment projects, defining route, revising the project documentation, supervising the performance, training for work on software for designing and mounting of emergency restoration towers etc.

In addition, 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 2016 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 321 work orders, out of which only 4 were emergency remedial actions.

18 new microprocessor protection were installed while 174 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 19 transformers were fully tested.

Six new power transformers were installed and 3 of them are in ordinary operation.

Voltage level	Planned				Realised			
	Protection	Partial discharge and thermography	Thermal imaging control of SS	Full testing of ETR	Protection	Partial discharge and thermography	Thermal imaging control of SS	Full testing of ETR
440 kV	6	81	3	1	8	81	3	2
220 kV	2	84	2	1	2	84	2	2
110 kV	52	455	16	9	90	455	16	15
35 kV	15	122	-	-	35	122	-	-
ETR	14	47	-	-	39	47	-	-
Ukupno	77	789	21	11	174	789	21	19

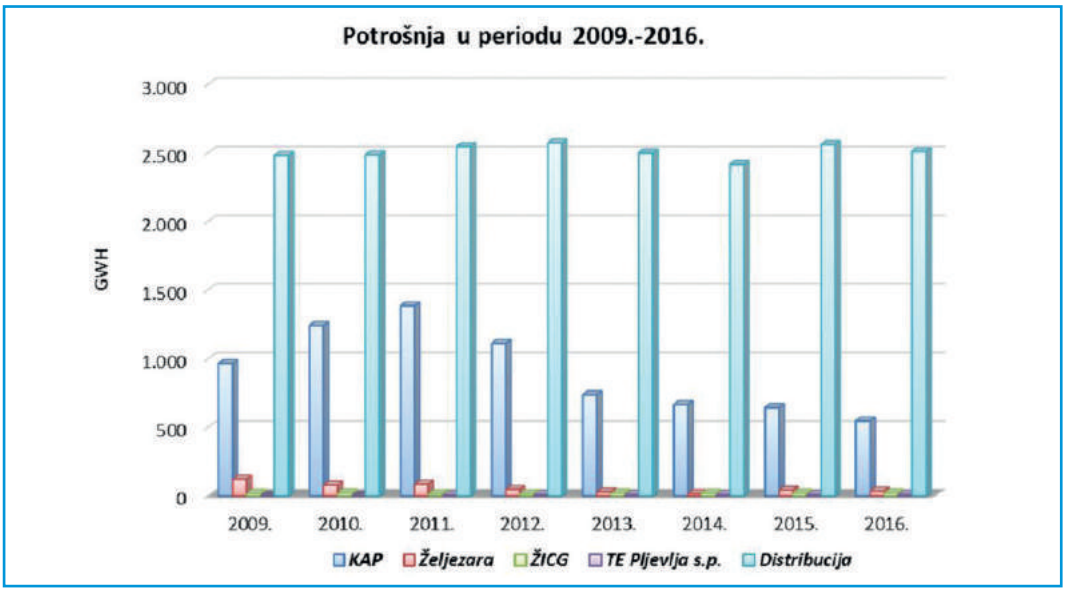
Table 4: Summary of activities of the Department of Protection and Testing in 2016

System Control

Electricity consumption

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 in 2014 and 2015, therefore the total consumption in the country in 2016 maintained on that level and amounts to 3.12 TWh.

Godina	2009.	2010.	2011.	2012.	2013.	2014.	2015.	2016.
KAP	965.701	1.241.180	1.386.860	1.110.988	734.855	665.453	643.083	547.647
Željezara	122.566	79.150	85.823	47.087	29.435	16.109	42.502	35.111
ŽICG	18.219	20.668	15.006	14.603	19.945	18.063	19.676	20.462
TPP Pljevlja auxiliary consumption	0	0	6.826	9.052	9.043	9.423	8.679	10.554
Distribution	2.480.834	2.486.704	2.547.375	2.573.781	2.499.532	2.416.706	2.561.092	2.510.332
Total	3.587.320	3.827.702	4.041.890	3.755.511	3.292.810	3.125.754	3.275.032	3.124.106



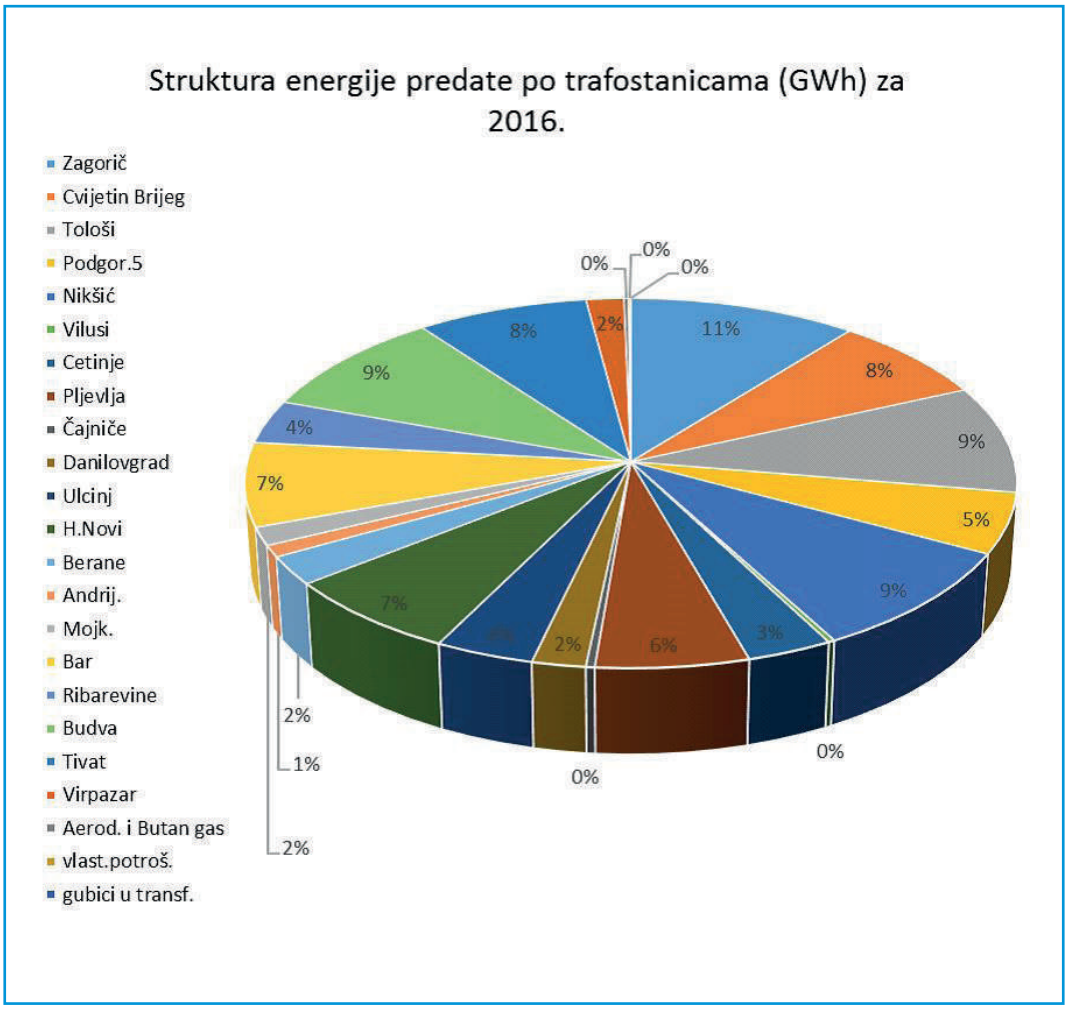
With reference to distribution consumption, it is important to emphasize that the consumption migration trend from the northern to coastal part of Montenegro is significantly slow, i.e. during 2016 we can note more equal distribution of consumption growth than it was recorded in previous several years. 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.

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

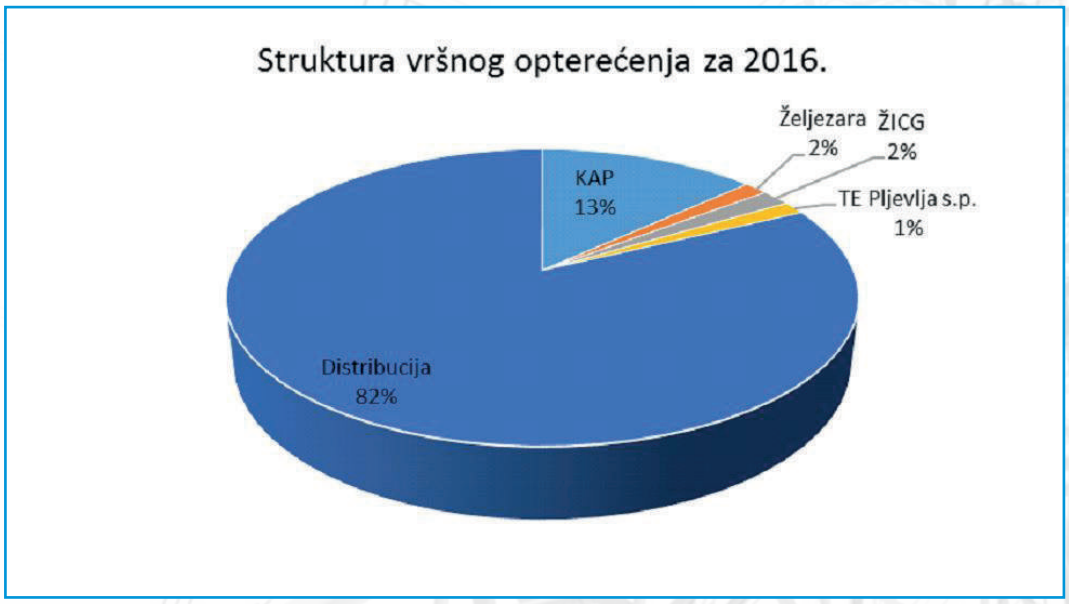
2016	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Total
Zagorič	26793	25094	23485	17885	17585	18215	22285	21788	19385	23379	24981	29624	270499
C.Brijeg	21203	17487	17138	12561	12500	13253	15457	15333	12607	14092	17017	22473	191121
Tološi	26488	22328	22018	16558	16601	16511	18547	17892	15594	17346	20841	27950	238674
Podgor.5	15207	12560	12509	8944	8923	9207	10102	9512	8558	9784	12290	16172	133768
Podg. tot:	89691	77469	75150	55948	55609	57186	66391	64525	56144	64601	75129	96219	834062
Nikšić	24213	20754	21955	17832	18021	15591	15846	13819	11436	14050	15838	18677	208032
Energised links	0	0	-209	7	-61	-113	0	-2372	-4654	-5646	-5159	-6082	-24289
Nikšić tot:	24213	20754	22164	17825	18082	15704	15846	16192	16090	19696	20997	24759	232322
Vilusi	548	466	490	461	482	462	510	554	510	525	524	597	6129
Cetinje	9713	8418	8404	5033	5050	3722	5957	7019	6069	6470	6095	9949	81899
Pljevlja	13295	11947	12493	11488	11586	11091	11592	11543	11203	11913	12637	14873	145661
Čajniče	677	672	683	637	698	681	610	685	732	763	763	808	8409
Pljevlja tot:	12618	11275	11810	10851	10888	10410	10982	10857	10471	11150	11874	14065	137251
Danilovgr.	5726	2425	3833	3587	3157	3364	5178	5551	4278	2303	4765	7029	51196
Ulcinj	7809	6596	6810	5654	6071	7282	12509	13240	7398	6172	6550	8228	94319
H.Novi	18096	15473	15273	11508	11934	12462	17687	17967	12454	11664	13214	17638	175370
Berane	6633	3056	3155	2455	2100	4579	6695	7227	6603	5894	5973	8457	62827
Andrij.	3054	2564	2497	2267	2417	2230	2795	2405	1237	955	580	2326	25327
Mojk.	3928	3033	3359	2811	2849	2855	3216	3510	3271	3433	3392	4182	39839
Bar	18257	15225	15729	11829	12318	13838	19810	20029	13489	12374	14368	18138	185404
Ribarevine	9373	7684	7971	7054	7256	6932	7470	7681	7845	8543	8713	10381	96903
Budva	19352	16031	16702	14023	15959	20493	31014	30717	21343	15528	15498	19895	236555
Tivat	19337	16517	17948	13789	14345	16698	19683	18175	13613	14679	18463	20548	203795
Virpazar	3727	3133	2934	2884	2802	3928	4653	5037	4231	3786	3464	4207	44786
Airport and Bu.g.	578	494	468	311	328	392	459	455	386	361	431	575	5238
Sum	252653	210613	214697	168290	171647	182537	230855	231142	185432	188134	210030	267193	2513223
Own consumption	343	283	284	166	230	160	156	161	156	203	259	341	2742
transformtion losses	12	12	12	12	12	12	12	12	12	12	12	12	148
Delivered on 35kV	252298	210318	214401	168112	171405	182365	230687	230968	185264	187919	209759	266840	2510333

Table 2
Delivered electricity by substations

At the following diagram is shown electricity delivered in the distribution network in 20116 by substations (MWh):

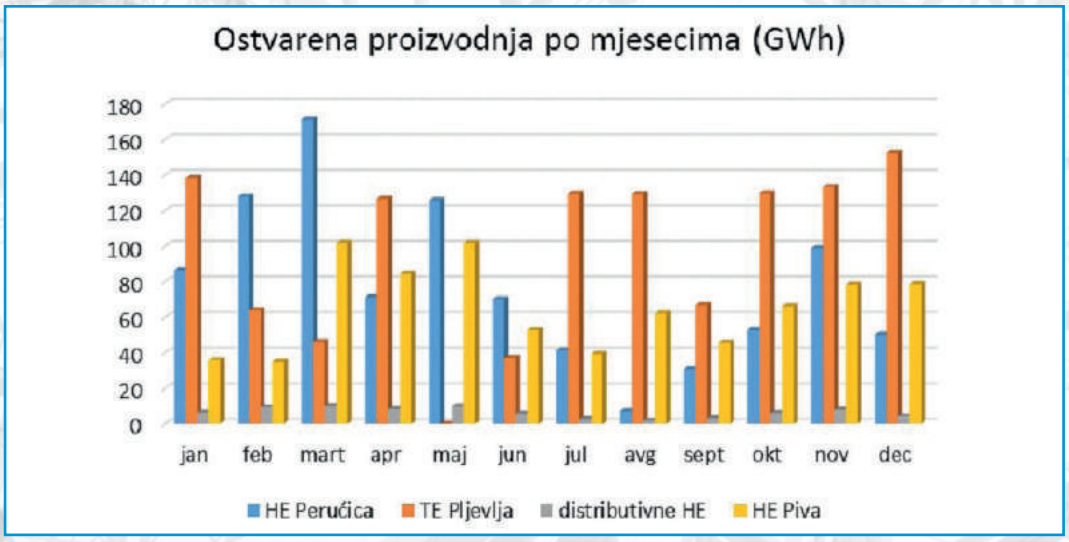


2016	Jan	Feb	Mart	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
KAP	65860	65970	64078	67025	63677	63650	62744	62238	61850	63603	66315	67468
Željezara	8941	4787	9856	9082	8589	7674	2156	3819	5775	9317	3988	10281
ŽICG	7255	7825	9170	9997	8571	8459	10412	9736	8462	7755	8283	8261
TE Pljevlja aux.cons.	8368	2644	10014	5060	1210	12650	4070	9790	5394	10674	9790	1762
Distribution	466120	419186	384958	347785	329265	384467	426943	439697	357778	339603	422108	489203



Electricity generation

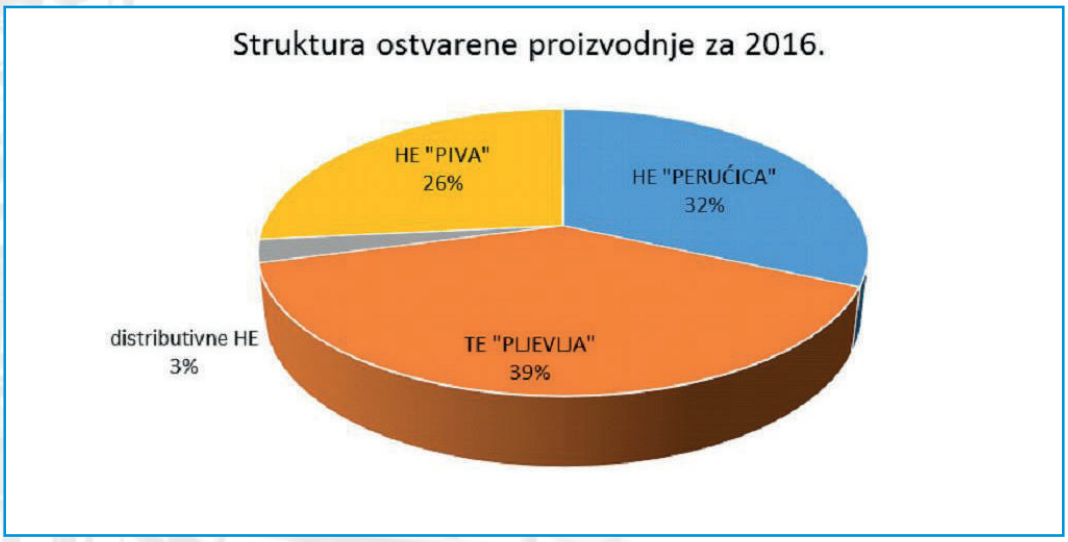
3,023 TWh of electricity was injected in the transmission system from generating facilities [Diagram 4].



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.

Total energy transferred through Montenegrin power system

Based on Table 4, we can conclude that the total energy transfer enabled by CGES did not continue its multi-year upward trend. Despite the recovery of domestic consumption, due to slightly worse hydrological conditions in the whole region and lower electricity transits, through the Montenegrin transmission system during the year 5.73 TWh of electricity was transferred, which is lower by 0, 74% compared to 2015.



Year	2009.	2010.	2011.	2012.	2013.	2014.	2015.	2016.
Transferred energy (GWh)	5.613	6.274	5.980	6.129	6.637	6.771	5.781	5.738

Table 4. –Total transferred energy for the period 2009 – 2016

Quality of delivery of and cancellation of cross-border capacities

In 2016, 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, when it amounted to 512 MWh, 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 307 MWh.

Allocated cross-border transmission capacity was available to users

100 %

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

Social Philanthropy Projects during 2016.

The period behind us can be with certainty called a period of total dedication to socially responsible business since whole series of activities aimed at promoting such policy have been carried out in our company. The correctness of this business policy is affirmed by the public, i.e. acknowledgments that this electric power company received during 2015 for the social philanthropy projects.

PHILANTHROPIC ACTIVITIES

- Crnogorski elektroprenosni sistem (CGES) and the Center for Protection and Study of Birds (CZIP) continued for the second consecutive year a successful co-operation on adapting the electro-transfer system to environmentally acceptable conditions for bird nesting (donation of 30 artificial nests).
- The contribution of CGES to conservation of nature through the protection of birds.
- Public awareness on bird protection, especially the gray falcon, was raised. We have improved cooperation with the non-governmental organization regarding the protection of gray falcon. We have drawn attention to the fact that such partnerships are possible and educated general public thereon by means of public information.
- It is important to note that CGES by this unique project in Montenegro has been granted a special place and responsibility for environmental protection (CGES and CZIP cooperation). With this project, the company applied for and received awards from the Employers' Union of Montenegro in the area of environmental care in 2016.

- Let's not forget the financial support to NGO„Tara" for the organization of the VII International Festival „Bridges connect people" as part of our concern for the environment.
- CGES helps young patients. We will mention donations to the Institute for Children's Diseases, as well as participation in a Donor evening organized by the Association of Parents of Children suffering from Cancer „Fenix –Montenegro" and the Clinical Center of Montenegro, showing ance again humanity in action and sensitivity to the youngest patients.
- Appreciating the mission of the „Fenix" Association, primarily devoted to children suffering from this severe illness, as well as their parents and guardians, CGES has contributed to helping children who are struggling with this evil disease to have better conditions for treatment.
- The money was devoted to the renovation of six apartments of the Pediatrics Department and the adaptation of this space for the treatment of children suffering from cancer.
- CGES has enabled NVU „Staze" to buy new-year packages for children and adolescents with developmental disabilitis, thus enriching them New Year's and Christmas holidays.
- The gifts were given to all the members of the Association thanks to our company, which this year renounce the purchase of corporate gifts for business partners and employees and donated these funds to the said association.
- The support to the development of Montenegrin sport is an important part of socially-responsible operation of CGES, which is always linked to the best. CGES tends to continue its cooperation with the European champion - (ŽRK) "Budućnost", which represents a Montenegrin brand by making remarkable sports results from one season to another
- Besides, we are proud to be sponsor of Water Polo Swimming Association of Montenegro. CGES supports Montenegrin Water Polo and Swimming Federation, providing support to the most successful Montenegrin Water polo players that make remarkable world results.
- We also supported the „Podgorica Marathon".
- Our company also helped the municipality of Kotor in organizing the „Kotor-Trojica" car race.
- As a socially responsible company, CGES invests in development and assistance foundation programs and support young talents. This time, our company helped the „Montebot" team from "Pavle Rovinski", which won the third place in the category of "Robot Design" European competition in Spain.
- In addition, CGES was one of the proud sponsors of the 14th International Conference PRO PR and at the same time hosting ETF students in Podgorica.
- A part of our attention during the past year we have focused on various social manifestations such as festivals of puppetry, music, acting and similar cultural-artistic activities.
- 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".

Regulatory Framework

In the process of harmonization with the EU legislation for energy sector, in particular, the Third Energy Package, a new Energy Law has been adopted by the Montenegrin Parliament and entered into force on 29th January 2016.

With the same purpose, the Montenegrin Parliament adopted the Law on cross border exchange of power and gas in force from 19th July 2016.

According to the new principles set forth in the primary legislation, the Energy Regulatory Agency adopted a new Methodology for setting regulatory prices and tariffs (the "Methodology") entered into force on 28th July 2016, which will be applicable to third regulatory period (1 January 2017 - 31 December 2019). The Methodology introduced several new mechanisms and principles to determine applicable tariffs.

The Energy Regulatory Agency also adopted a new Methodology for setting prices and conditions of ancillary, balancing and system services (the "Methodology for ancillary and balancing services") entered into force on 2nd July 2016 which is in line with the previously applicable criteria.

The one-year regulatory period 2016 has been the first regulatory period having a perfect alignment of the fiscal year with the regulatory year thus granting a continuous improvement and more efficient performance of regulatory activities and related monitoring.

Pursuant to previously applicable Article 52 paragraph 1 of the Energy Law ("Official Gazette of Montenegro", no. 28/10, 42/11, 13/6, 10/15), the Energy Regulatory Agency set prices that the Company is obliged to apply when invoicing services of transmission capacity use to electricity producers connected to transmission system for each month, as follows:

- Price for transmission capacity use paid by electricity producers connected to transmission system is set in the amount of 723,7758 €/MW/month;
- Price for transmission capacity use is set in the amount of 1,7404 €/kW/month;
- Price for allowed electricity losses in transmission system is set in the amount of 0,1448 €/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.

Corporate Management

Shareholders Assembly

The Shareholders Assembly is the ultimate authority of the Company. The competences of the Assembly are provided for by the Companies Act and By-Laws of the Company. The shareholders, through the assembly, pass and approve the most important acts, property, election and status related decisions. VII Ordinary Shareholders Assembly Meeting was held 29 June 2016. In addition to the decision on adoption of 2015 Operating Statement ,2015 Financial Statements 5 with the Auditor's report, and the decision on the auditor for the year 2016, the Assembly elected members of the Board of Directors

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 periodical 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 VII Ordinary Shareholders Assembly held on 29 June 2016, the Board's elected member were Dragan Laketić (Chairman), Vesna Bracanović (member), Igor Noveljić (member), Zoran Rakočević (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 Jelena Matejić (member) who is a representative of minority shareholders.

During 2016, the Board held five 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 Remuneration Policy of Crnogorski elektroprenosni sistem AD adopted by the Shareholders Assembly and harmonized with relevant regulations .

Company Secretary

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

The Company Secretary is obliged to 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, 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 2016, the positions of directors within the Company were held by Branko Stojković, Director of National Dispatch Centre, Branko Knežević, Director of Elektroprenos, Luca Pellegrino, Director of Department for Financial Planning, Control and Investor Relations 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

The Shareholders Assembly at its meeting held on 29 June 2016 adopted Remuneration Policy of CrnogorskI elektroprenosnI sistem AD which sets forth the principles of determination of remuneration for work of employees and other persons hired to perform specific tasks with Crnogorski elektroprenosni sistem AD

Salaries, remuneration and other employee benefits are determined by the collective agreement of the company, excluding salaries and remuneration of the corporate bodies and members of the Management of the Company, which are determined by special contracts and decisions of the competent authorities on the basis of this Remuneration Policy for occasional and temporary work stipulated by contracts concluded Between the executive director of the Company and the employees.

Short-term and long-term bonuses

The Company's policy of salaries and remunerations did not cover payment of bonuses in 2016.

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.

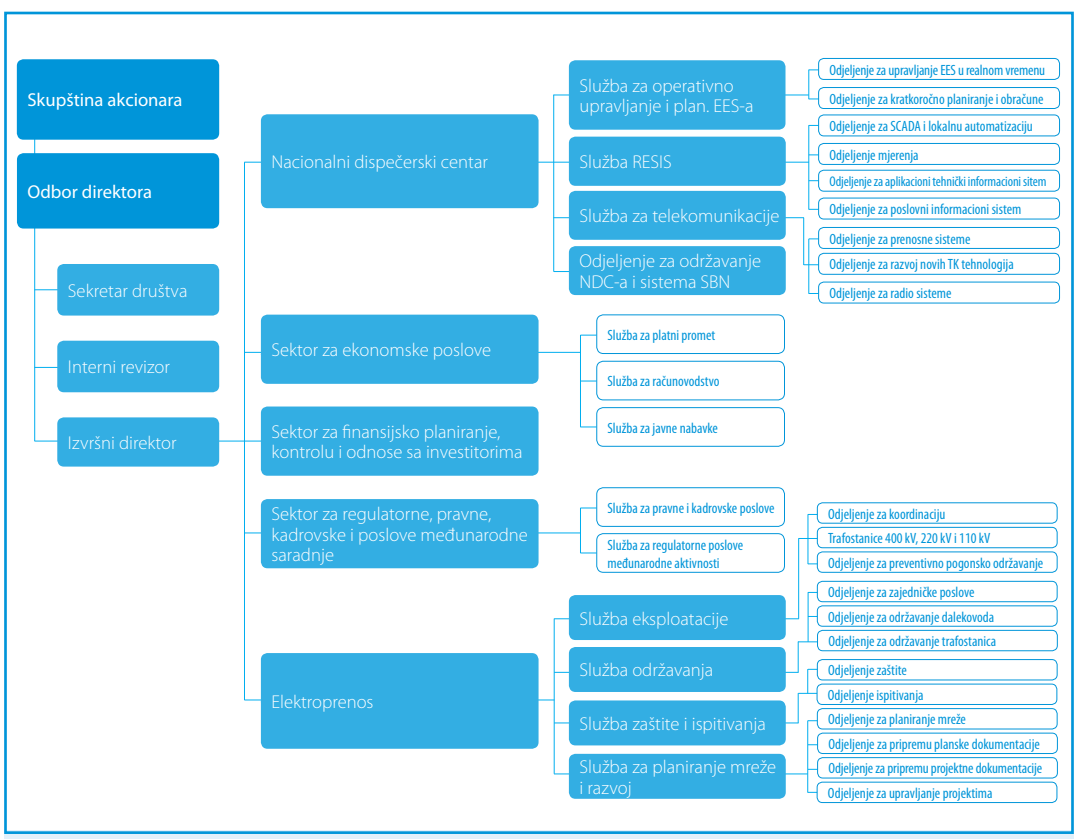


Figure 15- CGES Organizational Chart

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.

Human Resources

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

According to the Auditor's report, as of 31.12.2016, the total number of employees in CGES was 329.That number includes 299 employees had full-term employment contracts, and 30 employees with fixed- term employment contract. The average age of CGES employees is 40.05.

Four year in a row, we have been supporting the Government program of vocational training of the persons hwo acquired higher level of education.

Figure 16 - Value of assets per employee[€] in the period 2010- 2016

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

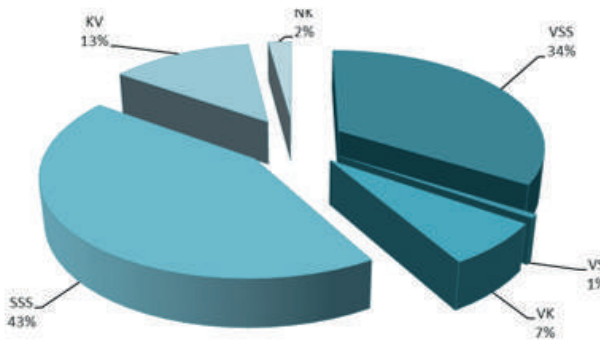


Figure 17 - Qualification structure of employee

Occupational Safety and Health Measures

- Within permanent Company's activities in ensuring adequate occupational safety and health measures for employees during 2016 many occupational safety and health related activities were performed:
- Periodical medical examinations of employees at workplace with special work conditions, as well as extraordinary examinations at the request of employees or employer for a total of 205 employees;
- Completed training new employees for safe work, as well as those who in the meantime have changed their work place;
- Purchase of new and testing of existing HV collective protection equipment;
- Completed training and first aid exams for 20 employees
- Purchase of personal protective equipment (winter overalls, helmets, thermal gloves, and equipment for millwrights);
- Performed inspection on implementation of workplace safety and helath measures
- Inspection and service of firefighting extinguishers and hydrant networks and reconstruction of outdoor hydrant network in SS Ribarevine
- All CGES facilities were visited and overhead line teams with the aim of getting insight in the conditions and inspection and control of implementation of workplace safety and health measures;
- Purchase of new first-aid kits
- Placed signs of warning, prohibitions, obligations and notices updated in accordance with the new Healh and Safety Sign and Signals Regulation
- Updating of records relating to workplace safety and health.
- During the year, one severe workplace injuries were recorded.


Value of all subdivisions
Best subdivision value
Subdivision 2
Subdivision 3
Product placement in different regions
Main company
Others
Subdivisions
Created information of changing business activity of subdivisions of main company

Financial Statement

Profit & Loss

The financial statements for year 2016 show a profit of 2,4 Mln €.

Revenues amount to 30,2Mln €, mainly related to transmission network usage (17,6 Mln €), capacity allocation (2,8 Mln €) and transmission losses (5,0 Mln €).

Operating expenses reached 20,2 Mln €, mainly due to personnel costs (6,0 Mln €) and transmission losses (5,3 Mln €).

EBITDA (earnings before interest, taxes and depreciation) is equal to 10,0 Mln € and the margin reaches 33%.

P&L

	EoY 2016	EoY 2015	2016 vs. 2015
€ mil			
Transmission revenues	17.6	18,0	(0.5)
Transmission losses	5.0	5,3	(0.4)
Congestion revenues	2.8	5,5	(2.7)
Ancillary system balancing revenues	3.5	2,5	1.0
Other revenues	1.3	1,1	(0.2)
Total Revenues	30.2	32,5	(2,3)
Personnel	6.0	6,5	(0.5)
Material	0.2	0,3	(0.1)
Third party	1.9	1,9	(0.1)
Ancillary system balancing costs	4.3	3,2	1.0
Other	2.6	2,8	(0.2)
Transmission losses	5.3	5,3	0.0
Opex total	20.2	20,1	0.1
EBITDA	10.0	12,4	(2.4)
Margin	33%	38%	-5%
D&A	7.2	7,1	0.1
EBIT	2.8	5,4	(2.5)
Margin	9%	17%	-7%
Net Financial expenses	0.1	0,9	(0.8)
Financial revenues	0.6	0,3	0.3
Financial expenses EBRD	0.2	0,3	(0.2)
Financial expenses KfW	0.0	0,0	(0.0)
Financial expenses Revolving facility	-	-	-
Financial expenses other debt	0.5	0,9	(0.4)
EBT	2.7	4,5	(1.7)
Taxes	0.3	0,5	(0.2)
Net income	2,4	4,0	(1.6)

Transmission usage network revenues:

- **Revenues from distribution:** Lower than 2015 (-0.3 mln €) mainly due to lower network use (-0.4 mln €, -4%) slightly compensated with higher tariff effect (+0.1 mln €, +1%).
- **Revenues from producers:** Lower than 2015 (-0.2 mln €) due to different methodology applied from August 2015.

Transmission losses: Lower than 2015 (-0.4 mln €) mainly due to lower energy consumption.

Congestion revenues: Lower than 2015 (-2.7 mln €) mainly due to lower applied price on Albanian border.

Other revenues: Higher vs previous year (+1.2 mln €) mainly due to:

- Revenues derived from ancillary and system balancing (+1.0 mln €);
- Extraordinary revenues + previous years (+0.2 mln €);

Operating expenses: +0,1 Mln € mainly due to differences in the following items:

Ancillary system balancing services: +1,0 Mln €

Services Material and other costs: -0.3 Mln € mailly due to

- extraordinary expenses (+0.2 mln €)
- hosing loans (-0.4 mln €)
- material (-0.1 mln €)
- third party services (-0.1 mln €)

Personnel cost: (-0.5 mln €).

Depreciation and amortization: (+0,1 mln €) due to investments entered into operation.

Net financial expenses

Actual Net financial expenses are lower vs previous year due to combined effect of higher financial revenues, different accounting policy regarding booking of commitment fee for EBRD loan.

Income taxes are calculated as 9% of taxable profit plus fiscal adjustments (i.e. depreciation costs, provisions for severance packages and jubilees, etc.). Actual vs. previous year (-0,2 Mln €) due to lower EBT.

Net income Actual vs. previous year (-1,6 Mln €) due to lower EBT.

Balance Sheet

Balance sheet	EoY 2016	EoY 2015	EoY 2016 vs. EoY 2015
€ mil			
Assets	198.7	175.2	23.5
Working Capital	8.5	11.8	(3.3)
Funds	2.2	2.1	0.1
Net Invested Capital	205.0	184.8	20.2
Shareholders Equity	179.0	176.7	2.3
Paid in capital	155.1	155.1	-
Reserve	(0.1)	(0.0)	(0.1)
Carried forward results	24.0	21.6	2.4
Net income from previous period	21.6	17.6	4.0
Current net income	2.4	4.0	(1.6)
Dividends	-	-	-
Net Debt	26.0	8.1	17.9
Cash	29.7	31.9	(2.2)
Long term debt	55.7	40.0	15.6
EBRD Lastva-Pljevlja	22.1	12.1	9.9
KfW Lastva-Pljevlja	16.5	9,0	7.5
Revolving facility	-	-	-
Other debt	17,1	18.9	(1.8)
Short term debt	-	-	-
Dividends	-	-	-
Total liabilities	205,0	177.3	20,2

Net Financial Debt

Actual vs. end of 2015: :+17.9 mln € mainly due to investments in A&A infrastructure funded with loans (+19.4 mln €), mainly compensated by repayments of repayments of KfW Loan (-1.4 mln €), EBRD loan (-0.6 mln €), and other loans amounting – 1.8 mln €*. Level of total cash in comparison with last year is lower (-2.2 mln €), due to the negative operational cash flow partially funded through the loans for investments and own funds.

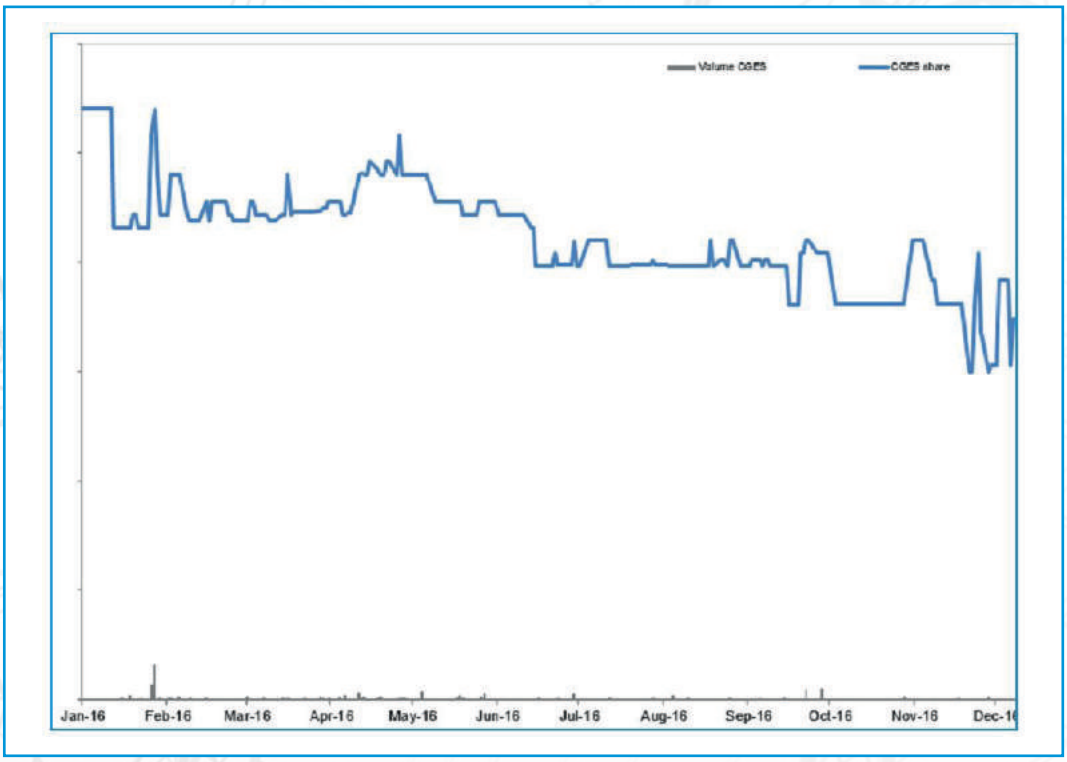
Cash flow

Cash flow	EoY 2016	EoY 2015
€ mil		
Initial balance	31.9	32,8
EBIT	2.8	5,4
Taxes	(0.3)	0,5
Depreciation	7.2	7,1
Delta WC	3.3	1,2
Delta funds	0.1	0,0
Delta capex	(30.7)	(15,8)
Terna CG expropriations	-	-
Total Operational	(17.7)	(2,6)
Financial expenses	(0.1)	(0,9)
Variation of EBRD loan	9.9	1,7
Variation of KfW loan	7.5	2,2
Revolving facility variation	-	-
Current Debt increase/amortization	(1.8)	(1,3)
Total Financial	15.6	1,7
Capital injection/reduction	0.1	0,0
Dividends	-	-
Remittances/injection	0.1	0,0
Total	(2,2)	(0,9)
Final Balance	29,7	31,9

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 a decrease from € 0.95 per share at the beginning of the year to € 0.80 per share, as was the value of 31/12/2016.



2016 Internal Audit Work Report

Pursuant to Article 15 of the Law on Public Internal Financial Control System („Official Gazette of Montenegro No. 73/08, 20/11, 30/12, 34/14) and Article 9, paragraph 1, item 3 of Internal Auditor Charter, the Internal Auditor is required to prepare an annual report on the work of the internal audit, which at the proposal of the Board of Directors is approved by the Shareholders Assembly of the Company, with an annual report on the work.

Internal Audit is an Independent, Objective Assurance and Advisory Activity with the aim of adding value and improving the operations of the entity helping it accomplish its objectives by providing a systematic, disciplinary approach to assessing and improving the efficiency of the risk management process, control and management processes.

An efficient internal audit process is an integral part of each control system and is a key instrument of successful management. The internal audit gives the management an objective professional opinion and advice on the adequacy of the financial management and control system in order to improve the business of the entity.

Consequently, at the session of the Board of Directors, held on 26th of October 2016, Mr. Nađa Đurišić, BEcon, was appointed for the Internal Auditor of the Company.

After the appointment, in order comply with the International Standards for Professional Practice of Internal Auditing and the regulations of Montenegro that govern the area of internal audit, the Internal Auditor has started drafting the Internal Audit Charter.

The Internal Audit Charter is an internal act of Crnogorski elektroprenosni Sistem AD, which regulates:

- the purpose and objective of the internal audit,
- scope of work,
- Independence and objectivity,
- basic principles of internal audit,
- the powers and responsibilities of the Internal Auditor and the Head of Entity with regard to internal auditing,
- reporting, confidentiality, quality assurance, as well as
- Cooperation with the Central Harmonization Unit of the Ministry of Finance and the State Audit Institution.

At its IV session held on December 29 December 2016, the Board of Directors of the Company passed the Decision (number 10-00-14957) adopting the Internal Audit Charter of Crnogorski elektroprenosni Sistem AD. This sets the framework rules, principles and procedures for internal audit activity within the existing organizational structure of the Company.

Also, for the purpose of the practical training organized by the Montenegrin Ministry of Finance and the purpose of the certification of authorized internal auditors in the public sector, the Internal Auditor has audited the process of calculation and payment of salaries and other personal income. The work of the Internal Auditor was mentored by Stoja Roćenović on behalf of Montenegrin Ministry of Finance. The audit was carried out in the period from 08 November to 29 December 2016. After completion of the training, the Internal Auditor gained the position of an authorized internal auditor in the Montenegrin public sector.

The purpose of establishing an internal audit is to provide an objective and professional opinion on the adequacy of the system of financial management and control in the Company. The primary objective of the Internal Auditor's work is to improve the Company's business through the implementation of the management and control mechanisms and to provide recommendations and advice regarding the activities in the process / system subject to audit.

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 2016, 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 true and objective presentation of these financial statements in accordance with the applicable Law on Accounting of Montenegro and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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TRANSLATION

Opinion

In our opinion, the financial statements present truly and objectively, the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the applicable Law on Accounting of Montenegro.

Emphasis of Matters

Without qualifying our opinion, we draw attention to Note 20 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 2017 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 2017 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 2016 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.

Collection of these receivables is expected before the Commercial Court of Montenegro in civil proceedings by the end of 2017 unless unexpected circumstances occure.

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TRANSLATION

The Decision of the Commercial Court of Montenegro no 1246/16 dated 7 April 2017 confirmed to adopt CGES claim and EPCG AD Niksic is obliged to pay CGES the principal debt and the related interest based on fees for the engagement of the transmission capacity for the month of July 2015.

Podgorica, 24 May 2017

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, 24 May 2017

KPMG d.o.o. Podgorica

(L.S.)

Branko Vojnović
Certified Auditor