

ELEKTROPRIVREDA CRNE GORE A.D. NIKŠIĆ

**REPORT
ON BUSINESS OPERATIONS OF ELEKTROPRIVREDA CRNE GORE
A.D. NIKŠIĆ
FOR YEAR 2008**

Nikšić, May 2009

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1. GENERAL INFORMATION ABOUT THE COMPANY

Elektroprivreda Crne Gore A.D. – Nikšić (the Electric Power Company of Montenegro, Joint Stock Company (J.S.C.), Niksic – EPCG) , is the only company in Montenegro carrying out activities of electricity generation, transmission, distribution and supply and it owns the electricity generating capacities with the total installed capacity of 867 MW, whereof 657 MW (76%) in hydropower plants and 210 MW (24%) in thermal power plant “Pljevlja”.

Elektroprivreda Crne Gore was registered:

- in the Central Register of the Commercial Court in Podgorica with registration number 4-40330 (last entry 022),
- as an issuer of securities with the Securities Committee, under number 283,
- As a holder of six licenses for carrying out of activities in the energy sector, with the Energy Regulatory Agency, under number from L-E-001 to L-E-006.

The equity capital of Elektroprivreda Crne Gore is 991,884,418.74 EUR and it has been divided into 113,887,961 shares. Nominal value of each share is 8.7093 EUR. All shares of the Company are common shares (class C) in dematerialized form.

Head office of the Company is in Niksic, 2, Vuka Karadzica Street.

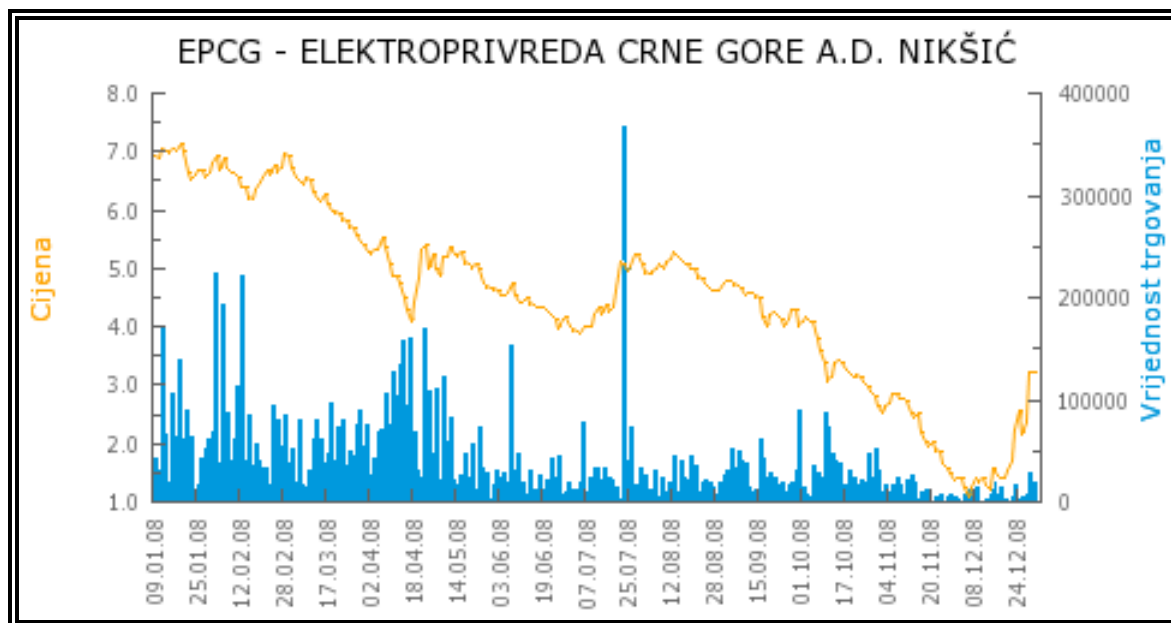
EPCG carries out business activities regulated by the Energy law, licenses for the energy sector and the Articles of Association, as follows:

- electricity generation,
- electricity transmission,
- electricity distribution,
- electricity supply,
- purchase and sale of electricity,
- Transmission Network Operator,
- Distribution Network Operator,
- Electricity Market Operator, and
- construction and maintenance of electric power facilities.

These activities are registered under code 40101 and are carried out as internal and international transactions on the basis of adequate licenses, i.e. on the basis of approval of the Energy Regulatory Agency.

Business activities of EPCG are activities of public interest and they are carried out in a manner that ensures regular and high quality meeting of demand of Montenegrin customers, profitability of business operation and maintenance of good business relations with all the partners.

In the period January - December 2008, the total realized turnover of the shares of the Electric Power Company of Montenegro amounted to EUR 10,101,273. The minimum price of the share was realized on 4.12.2008, and it amounted to EUR 0.9700, whereas the maximum price was achieved on 9.01.2008, and it amounted to EUR 7,3990.



Izvor: NEX Montenegro berza

Cijena - Price

Vrijednost trgovanja - Value of trading

Source: NEX Montenegro Stock

2. ORGANIZATIONAL STRUCTURE OF THE COMPANY

Organizational structure of the Company consists of the following functional and organizational units:

- FU Generation,
- FU Transmission,
- FU Distribution,
- FU Supply,
- OU Head Office of the Company and
- OU Elektrogradnja.

Functional unit Generation is organized as follows:

- Head Office of Generation;
- HPP "Perućica";
- HPP "Piva";
- TPP "Pljevlja"

Functional unit Transmission is organized as follows:

- Head Office of Transmission;
- National Dispatch Center;
- Electricity Transmission;
- Market Operator

Functional unit Distribution is organized as follows:

- Head Office of Distribution
- 16 Electricity Distribution Centers with seats in Bar, Budva, Bijelo Polje, Berane, Kolašin, Kotor, Mojkovac, Nikšić, Pljevlja, Rožaje, Tivat, Podgorica, Ulcinj, Herceg Novi, Žabljak and Cetinje.

Functional unit Supply is organized as follows:

- Division for Trade in Electricity;
- Division for Collection of Receivables;
- Division for Economic Affairs;
- Division for Legal Affairs, Human Resources and Administrative Affairs.
- Department for Information Communication Technology;
- Customer Contact Department;
- 16 Supply Centers with seats in Bar, Budva, Bijelo Polje, Berane, Kolašin, Kotor, Mojkovac, Nikšić, Pljevlja, Rožaje, Tivat, Podgorica, Ulcinj, Herceg Novi, Žabljak and Cetinje.

Organisational unit Head Office of the Company is organized as follows:

- Division for Economic Affairs;
- Division for Legal Affairs, Human Resources and Administrative Affairs;
- Division for Corporate Planning;
- Division for Engineering and Development;
- Center for Information Communication Technology;
- Center for Quality System and Environmental Protection;
- Center for Public Relations;
- Social Standard.
- Department for Commercial Affairs.

Organisational unit Elektrogradnja is organized as follows:

- Head Office of Elektrogradnja;
- Division for Technical Affairs;

3. MISSION AND STRATEGY OF THE COMPANY

3.1. Mission

Mission of the Elektroprivreda Crne Gore AD Nikšić is: continuous generation in the existing capacities, rehabilitation of the existing capacities, safe and reliable high-quality supply of customers with electricity, non-discriminatory approach to the network system.

3.2. Vision

The Company's vision is to become a profitable company with modern conception, which provides a high level of security in electricity supply to the consumers.

3.3. Objectives

The basic objectives of EPCG for 2008 were:

- Consistent realization of Electric Power Balance of the Republic of Montenegro, with maximum utilization of available generating resources;
- Legal separation of Transmission;

- Implementation of the planned investment activities and participation in construction of new generating facilities;
- Initiation of the capital increase process;
- Improvement of energy efficiency and efficiency of business operations (reduction of all types of consumption, rationalization of labour force, etc.);
- Integration into regional electricity market;
- Providing material and social security to the employees, in accordance with Individual Collective Agreement and the Basics of Social Programme.

3.4. Strategies

In order to have efficient implementation of the mission and vision of operation of the Electric Power Company, clear objectives were set for four key-areas, as follows:

- Engineering,
- Finances,
- Human resources and
- Customers.

An overview of specific objectives is given in the Table below:

Area of operation	Objectives
Engineering	Undertaking activities related to reconstruction and development of generating and distribution capacities
	Upgrading the maintenance services (by introducing a planned maintenance and preventive maintenance)
	Undertaking activities related to introduction of remote control of electric power facilities.
	Undertaking activities related to introduction of modern IT systems, as well as state-of-the-art telecommunication system
	Introducing new technologies in order to improve system parameters (safety, availability, reduction of losses)
Finances	Gaining the financial independence
	Realization of realistic prices of the services (tariffs)
	Maintaining the continuity of investments
	Efficient control of liquidity
	Performing business activities as an efficient and profitable company.
Human resources	Positive selection and optimization of the number of employees
	Enabling permanent education and training
	Mastering of skills and knowledge necessary for new activities pertaining to the new role of the Company
	Introducing the contemporary system for remuneration of employees
Customers	Ensuring non-discrimination
	Transparency of operation
	Confidentiality of sensitive commercial information
	Providing efficient reactions to consumers' requests

4. ELECTRIC POWER SECTOR OF MONTENEGRO

Generation

Elektroprivreda Crne Gore owns 867 MW installed capacity in hydropower plants and in one coal fired thermal power plant. Overview of generating capacities in Montenegro is given in the Table below:

HPP Perućica	307 MW
HPP Piva	342 MW
TPP Pljevlja	210 MW
Small hydropower plants	8 MW

HPP Perućica

HPP Perućica is the oldest hydropower plant in Montenegro, operated by EPCG. It was commissioned in 1960. It has seven generator-turbine sets, with total installed capacity of 307 MW (maximum allowed capacity is 285 MW). According to organisational structure of the Company, seven small hydropower plants belong to HPP Perućica and they have 11 generator-turbine sets with 8 MW total installed capacity and expected annual generation of 21 GWh. HPP Perućica uses water from the catchment area of the River Gornja Zeta and waters that flow into Nikšićko Valley. These watercourses have extremely favourable head in a short distance between Nikšićko Valley and Bjelopavlička Valley and they are used for electricity generation in HPP Perućica.

HPP Piva

HPP Piva is a storage close-to-dam plant with one of the highest concrete arch dams in the world. HPP Piva was commissioned in 1976. It has total installed capacity of 342 MW, and expected annual generation of 760 GWh. There is a long-term cooperation agreement between EPCG and the EPS which regulates operation of this power plant. Long-term agreement between the EPS and EPCG was signed in 1991 and it extends over the period of 25 years.

TPP Pljevlja

TPP Pljevlja is located near the road Pljevlja-Đurđevića-Tara-Žabljak, in the vicinity of coal mine Borovica, which is its main source of fuel. Elevation of the power plant is 760 meters above sea level, with 250 m high chimney. The River Vrežnica flows in the vicinity and it has a regulated river bed. Cooling water and water for other purposes is supplied to the thermal power plant from the water reservoir Otilovići, that has a volume of 18 million m³. This TPP began its operation in 1982. It has one turbine-generator unit with 210 MW installed capacity. The thermal power plant was originally planned to have two units, 210 MW each. The chimney and space for coal were designed for this purpose.

Transmission

The transmission network of the electric power system of Montenegro consists of power lines, transformer stations and other equipment at 400 kV, 200 kV and 110 kV voltage, and it comprises:

- 31 (thirty one) 110 kV OHL with the total length of 654.30 km, including the third line Podgorica 2 –KAP which is finalised, but is not commissioned due to property – legal issues;
- 7 (seven) 220 kV OHLs with the total length of 348.10 km without a branch from OHL Podgorica 1 – Pljevlja 2 towards TS 220/110/35 kV Mojkovac with the length of 2.3 km and
- 4 (four) 400 kV OHLs with the total length of 255km.

The electric power system comprises 19 (nineteen) transmission transformer stations, as follows:

- 1 transformer station of voltage 400/220/110 kV;
- 1 transformer station 400/110 kV;
- 3 transformer stations 220/110/ kV;
- 12 transformer stations 110/35 kV;
- 2 transformer stations 110/10 kV.

400 kV power lines were built in the period between years 1982 and 1983, 220 kV power lines were built the period between 1961 and 1982, while 110 kV power lines were built starting from the year 1956 (the last one was built in the year 2004). On the territory of Montenegro there are 2 transformer stations 400/x kV (one 400/200 kV and the other 400/110 kV), 4 transformer stations 200/110 kV and 17 transformer stations 110/x kV (15 TS 110/35 kV and 2 TS 110/10 kV). There are 19 transformer stations connected to the transmission network of Montenegro (excluding a substation in HPP Perućica, and substations owned by the Railways) with the total installed capacity of 2,950 MVA, with a share of 1,400 MVA (47.5%) in 400/x kV transformers (400/220 kV and 400/110 kV), and 575 MVA (19.5%) in 220/110 kV substations and 975 MVA (33% in 110/x kV substations). Most of substations was built between 1950 and 1980. The transmission network of Montenegro is characterised with mostly radial structure on all the three voltage levels, parallel 400kV and 220kV lines with unequal transmission capacity due to which breakdowns in 400kV network could cause overloading of parts of 220kV network, as well as with good connection with neighbouring electric power systems in Serbia, Kosovo, Bosnia and Hercegovina and Albania. There is one 400 kV connection with Kosovo (Ribarevine – Kosovo B), with Serbia two 220 kV connections (Pljevlja 2 – Bajina Bašta and Pljevlja 2 – Požega) and one 110 kV connection (Pljevlja 1 – Potpeć/Višegrad). There is one 400 kV connection with Bosnia and Hercegovina (Podgorica 2 – Trebinje), two 220 kV connections (HPP Perućica – Trebinje and HPP Piva – Sarajevo), two 110 kV connections (Herceg Novi – Trebinje and Vilusi/Nikšić – Bileća). Connection with Albania is currently at 220 kV voltage level (Podgorica 1 – Vau Dejes), and soon a new 400 kV connection will be established (Podgorica 2 – Tirana/Elbasan, power line is under construction and it is expected that its operation will begin in the year 2009). Strong connections existing between the network of Montenegro and the neighbouring systems represents an additional security for the electric power system of Montenegro and is enabling considerable exchanges between the neighbouring systems.

Distribution

Distribution network is a part of the electric power system, which serves to transport electricity from the transmission network or from power plants connected to the distribution network to customers connected to the distribution network and it comprises power lines of the total length of **18,556 km**, with the following voltage structure:

- 35 kV overhead lines with the length of 1,029 km
- 35 kV cable lines with the length of 49 km
- 10 kV overhead lines with the length of 3,544 km
- 10 kV cable lines with the length of 998 km
- 0.4 kV overhead lines with the length of 11,542 km
- 0.4 kV cable lines with the length of 1,394 km

Characteristics of the network are as follows:

- Number of 35/10 kV TS: 87
- Installed capacity of TS 35/10 kV: 685.3 MVA
- Number of 35/0.4 kV TS, mTS 35/06 kV: 24
- Installed capacity of TS 35/04 and 35/06 kV: 29.20 MVA
- Number of 10/0.4 kV TS: 1,781 kom.
- Number of 10/04 kV pole mounted TS: 1,981 kom.

Because of simplicity and functional separation of the distribution network elements, the primary and secondary MV distribution network were defined. Typical primary distribution voltages are 35 kV and 30 kV and sometimes 50 kV, and typical secondary distribution voltages are 10 kV and 20 kV and sometimes also 6 kV. Out of the above mentioned voltages, in the distribution network of Montenegro there are only 35 kV and 10 kV. Secondary medium voltage distribution network is a connection with the low voltage network and it comprises MV/LV transformer stations and MV power lines from bays in HV/MV transformer stations and primary distribution MV/MV transformer stations. Hence, secondary distribution network comprises MV power lines, almost exclusively in radial operation, quite often without possibility for two-side supply and mostly without relay protection component that could perform selective disconnection of parts of the network. Secondary medium voltage distribution network, as a connection to the low voltage network, is necessary part of any distribution network. Unlike previously mentioned part of the network, primary medium voltage distribution network as a connection between the high voltage network and secondary medium voltage distribution network is not necessary, as a direct transformation HV/MV is possible and is nowadays quite often used. Unlike the secondary medium voltage distribution network, the primary network has relay protection installed on almost each network element (power line, i.e. transformer station) therefore operational availability according to (N-1) criteria is quite often ensured, i.e. two-side supply to MV/MV transformer stations. Even if that is not the case, availability is higher compared to secondary MV distribution network, as an impact of a breakdown of any network element is drastically lower, as one MV station supplies only one, or rarely MV/MV transformer stations, and not the tens of MV/LV transformer stations like for example on the lengths of MV lines outside of a town.

Supply

Total number of consumers in Montenegro is 322,420.

5. LEGAL FRAMEWORK

The main legal document for the energy sector of Montenegro is the Energy Law (“Official Gazette of the Republic of Montenegro” No. 39/03). The Energy Law was harmonized to a great extent with the Directives of European Union 2003/54/EC. In October 2005, Montenegro signed an Agreement Establishing the Energy Community, and thereby undertook an obligation to harmonize laws, regulations and administrative rules with the Directives of European Union. A new Energy Law is being prepared at the moment and its adoption is expected in the middle of the year 2009.

5.1. Energy Law

Within the program of economic reforms, the Parliament of the Republic of Montenegro, on June 26th, 2003, adopted a new Energy Law, which defines the main principles, roles and responsibilities of the main participants in the energy sector.

Main innovations brought by the new Law are:

- Separation of vertically integrated electric-power entity,
- Regulated third party access to the transmission network, and
- Establishing of independent Regulatory Agency.

Separation of vertically integrated electric-power entity

The process of separation of a single electric-power entity was not specified in detail in the Energy Law of the Republic of Montenegro, it was treated only in the Article 22, which envisages:

Not later than eighteen (18) months after the entry into force of this Law, existing Integrated Electricity Undertakings shall be Functionally Unbundled. Functional Unbundling shall include:

1. Accounting separation, meaning that vertically Integrated Electricity Undertakings shall separate accounts and financial records for Generation, Transmission Distribution and Supply activities and, in the event that a such entity also performs one or more non-Energy related activity, such other activity shall also be accounted for separately. The vertically Integrated Electricity Undertaking shall publish a separate balance sheet, profit and loss statement, a cash flow statement and all other statements required for each separate activity pursuant to the Law on Accounting and Auditing;

2. management separation, meaning that during the time that functions within an Energy Sector Undertaking are not legally unbundled, the day to day management of each separate function within the vertically integrated entity shall also be separated. In addition, it means that the managers of one function within a vertically integrated entity shall not be entitled to sit on the board of directors of the vertically integrated entity and that the staff shall be assigned to work within one function of the vertically integrated entity only;

3. Information separation, meaning that commercially sensitive information related to a third party possessed by one function of a vertically integrated entity shall not be shared with other parts of such entity. Information separation shall be ensured by internal codes of conduct adopted within each separate function of each vertically integrated entity.

Legal Unbundling of Energy Undertakings may be carried out any time after the entry into force of this Law.

Regulated third party access to the transmission network

Ensuring a free access to the transmission network is the main requirement for opening of the market. In Montenegro, like in the case of all the countries members of the EU, model of access to the transmission network that was selected is a regulated third party access.

Establishing of independent Regulatory Agency

After adoption of the Energy Law in January 2004, the Energy Regulatory Agency of the Republic of Montenegro started its operation as an independent body with primary task of regulating the electric power sector of the Republic of Montenegro. The bodies of this Agency are:

- Board of the Agency,
- Director of the Agency.

The work of the Agency is defined by the Article 12 of the Law:

(1) The Agency shall supervise all Energy Undertakings and shall be entitled to request information or to inform itself on matters it deems relevant for the purpose of ensuring that Energy Undertakings comply with their obligations under this Law.

(2) The Agency shall have the following powers, functions and responsibilities:

1) to make and issue all rules and regulations required to:

- carry out its obligations under this Law;
- to carry out and enforce the energy policies;
- revision and approval of market rules, technical codes, terms and conditions for connection and access to networks;

2) to issue Licenses to conduct activities and to interconnect Energy Sector facilities, networks and equipment for the Generation, Transmission, Distribution, Supply and sale of Energy;

3) to issue Authorizations for the construction of new or the reconstruction of existing energy facilities;

4) to set Tariffs and prices pursuant to the terms of this Law and Secondary Legislation;

5) to issue orders to Energy Undertakings pursuant to this Law and Secondary Legislation;

6) to modify, suspend, revoke, monitor, control and enforce compliance with Licenses issued pursuant to this Law and Secondary Legislation issued pursuant thereto;

7) to establish, or amend rules and regulations:

- that define the Energy market structure;
- for market operation;
- for the unbundling of Energy Undertakings;
- for the rights and obligations of all Energy Undertakings;

8) to establish rules and regulations related to:

- public hearings and findings conducted by the Agency in accordance with the terms of this Law and Secondary Legislation;

- monitoring of Energy Undertakings;

- safety of Energy facilities, personnel and the public, generally,

- compliance of Energy Undertakings with environmental regulations;

9) to ensure tariff consumer protection that provides for:

- fair and non-discriminatory treatment of Tariff Customers by Energy Undertakings;

- the delivery of high quality service by Energy Undertakings;

- the establishment of mechanisms that will encourage public participation in the development of rules and policies that affect Tariff Customers;

10) to promote competitive conduct in the Energy Sector, including:

- fair and non-discriminatory transit of Energy;

- additional sources of Energy for Generation, improvement of the possibilities for the Transmission, Distribution and Supply;

11) to establish Secondary Legislation related to:

- requirements pursuant to which all books, accounts, papers and records shall be kept by Energy Undertakings;

- in accordance with applicable laws, Secondary Legislation, treaties and other internationally recognized norms, to resolve disputes and/or hear complaints among or involving:

- Tariff Customers and Energy Undertakings; or
- Energy Undertakings;

12) pursuant to its powers under this Law and Secondary Legislation, to ensure that tendering procedures related to the construction of new generating capacity comply with applicable Law;

13) establish rules and regulations related to the transportation, storage, distribution, sale and delivery of Petroleum Products;

14) pursuant to the terms of this Law and Secondary Legislation, publish:

- annual reports required by this Law; and
- other reports and findings;

15) subject to the requirements of this Law related to the publication of confidential information, to ensure that information relating to the Energy Sector is made publicly available;

16) to hire consultants and experts to assist the Agency in its activities;

17) to join international associations related to the Energy Sector.

(3) The Agency has the right, at any time, to examine, inquire into, and determine, the extent, condition and value of the whole or any portion of the property and assets, of any Energy undertaking that is providing services at prices that are regulated by the Agency pursuant to Article 18. In determining the value of such property and assets, the Agency shall ensure that the valuation methods used, and the determination of base annual and accrued depreciation, comply with generally accepted international valuation and accounting standards.

(4) The Agency shall be entitled to conduct its own inspections of Energy Undertakings, pursuant to this Law and Secondary Legislation established pursuant thereto.

5.2. Treaty establishing the Energy Community

The Treaty came into effect in the middle of 2006 after it was ratified by 2/3 of countries signatories.

Objectives of establishment of the Energy Community

Main objectives underlying establishment of the Energy Community are:

- Create a stable regulatory and market framework capable of attracting investment in gas networks, power generation, and transmission and distribution networks, so that all Parties have access to the stable and continuous energy supply that is essential for economic development and social stability,
- Create a single regulatory space for trade in Network Energy that is necessary to match the geographic extent of the concerned product markets,
- Enhance the security of supply of the single regulatory space by providing a stable investment climate in which connections to Caspian, North African and Middle East gas reserves can be developed, and indigenous sources of energy such as natural gas, coal and hydropower can be exploited,
- Improve the environmental situation in relation to Network Energy and related energy efficiency, foster the use of renewable energy, and set out the conditions for energy trade in the single regulatory space,
- Develop Network Energy market competition on a broader geographic scale and exploit economies of scale.

Activities of the Energy Community

According to the Treaty, the activities of the Energy Community shall include:

- The implementation of the *Acquis communautaire* on energy, environment, competition and renewables, as described in Title II below, by the Contracting Parties, adapted to both

the institutional framework of the Energy Community and the specific situation of each of the Contracting Parties.

- The setting up of a specific regulatory framework permitting the efficient operation of Network Energy markets across the territories of the Contracting Parties and part of the territory of the European Community, and including the creation of a single mechanism for the cross-border transmission and/or transportation of Network Energy, and the supervision of unilateral safeguard measures. This activity is hereafter referred to as “Mechanism for operation of Network Energy markets”, and
- The creation for the Parties of a market in Network Energy without internal frontiers, including the coordination of mutual assistance in case of serious disturbance to the energy networks or external disruptions, and which may include the achievement of a common external energy trade policy (creation of single energy market).

Time Schedule for implementation of commitments from the Treaty

Upon entry into force of the Treaty Establishing the Energy Community of the South-East Europe, the Parties signatories undertook the following obligations:

Upon entry into force of this Treaty:

- Implementation of the Directive EEC 85/337/EEC on the environmental impact assessment of projects,
- Implementation of the Acquis communautaire on environment protection in construction and operation of new power generating plants,
- Implementation of the Article 4(2) the European Community Directive 79/409/EEC on the conservation of wild birds;

Within one year of the entry into force of this Treaty:

- Implementation of the European Community Directive 2003/54/EC concerning common rules for the internal market in electricity,
- Implementation of the European Community Directive 2003/55/EC concerning common rules for the internal market in natural gas,
- Implementation of the European Community Regulations 1228/2003/EC on conditions for access to the network for cross-border exchanges in electricity,
- Provision of a plan to implement the Directive 2001/77/EC on renewable energy sources and the Directive 2003/30/EC on promotion of use of bio-fuels and other renewable fuels for transport,
- the Energy Community Secretariat shall draw up a List of the Generally Applicable Standards of the European Community; The Contracting Parties shall, within one year of the adoption of the List, adopt their development plans to bring their Network Energy sectors into line with these Generally Applicable Standards of the European Community.
- Adoption of security of supply statements where it shall be in particular described a diversity of supply, technological security and geographic origin of imported fuels,

By December 31st, 2011:

- Implementation of the Directive 1999/32/EC on reduction of sulphur content of certain liquid fuels

By December 31st, 2017:

- Implementation of the Directive 2001/80/EC on the limitation of emissions of certain pollutants into the air from large combustion plants.

From January 1st 2008:

- Ensure that the eligible customers are all non-household customers,

From January 1st 2015:

- Ensure that the eligible customers are all customers.

6. RESTRUCTURING OF ELEKTROPRIVREDA CRNE GORE AD NIKŠIĆ

In the process of restructuring of Elektroprivreda Crne Gore A.D. Nikšić, the Functional unit Transmission was through a spin-off established as a new Joint Stock company Prenos (Transmission). New joint stock company Transmission becomes a licensee for Transmission, Network Operator and Market Operator and assets and liabilities created in carrying out of transmission activity are assigned to it.

On the basis of the prepared Inventory of assets and liabilities of FU Transmission, and taking into account the status of functional unbundling of this unit, a precise identification of assets and liabilities that are to be assigned to the new company was done. A summary of overall activities may be seen in the Balance sheet of this unit as on 31.12.2008. The mentioned balance gives a general overview of assets, capital and liabilities that were transferred to the new company – Transmission, in the process of Restructuring of Joint Stock Company «Elektroprivreda Crne Gore» Nikšić, through a spin-off.

	31.12.2008 EUR
ASSETS	
FIXED ASSETS	126,394,507
CURRENT ASSETS	8,626,163
INVESTMENTS	1,478,671
TOTAL ASSETS	136,499,342
CAPITAL AND LIABILITIES	
CAPITAL	120,846,515
LONG-TERM LIABILITIES	10,262,659
CURRENT LIABILITIES	5,390,168
TOTAL LIABILITIES	15,652,826
TOTAL CAPITAL AND LIABILITIES	136,499,342

On the basis of identified assets and liabilities of the Transmission, the capital of this unit was calculated in the following manner:

- Total assets 136,499,341.66 Eur
- Total liabilities 15,652,826.24 Eur
- Share capital of Transmission 120,846,515.42Eur

Also, on the basis of the above data, the capital of Elektroprivreda Crne Gore after spin-off of Transmission was calculated in the following manner:

➤ Current capital of EPCG	991,884,418.74 Eur
➤ Share capital of Transmission	120,846,515.42 Eur
➤ Share capital of EPCG after spin-off of Transmission	871,037,903.32 Eur

Nominal value of share after spin-off of Transmission is given as follows:

➤ Nominal value of a share in EPCG	8.7093 Eur
➤ Nominal value of a share in Transmission	1.0611Eur
➤ Nom.val. of EPCG share after spin-off of Transmission	7.6482 Eur

The procedure of decrease in capital of EPCG and issuing of capital of Transmission is carried out through a reduction, i.e. determining of a nominal value of a share, with replacement of existing shares with shares with a new nominal value.

7. CAPITAL INCREASE OF THE COMPANY

In line with the Conclusions of the Government of Montenegro from 06.03.2009, on the General Shareholders Meeting of Elektroprivreda Crne Gore AD Nikšić (EPCG) from 31.03.2008, a Decision was made to initiate a procedure aimed at creating conditions for construction of new and revitalization and optimisation of the existing electric power facilities.

In line with the above Conclusions, the Work Team of EPCG prepared the material Capital increase of Elektroprivreda Crne Gore AD Nikšić which defines the manner in which a process is to be implemented and which identifies open issues that may materially affect the finalisation of this activity, as follows:

- Construction of the unit II in TPP Pljevlja,
- Position of KAP as the biggest consumer,
- Construction of new electricity sources,
- Percentage of capital increase – transaction structure,
- Impact of the process of legal unbundling on the capital increase process and
- Impact of the opening of electricity market on the capital increase process

In accordance with the Law on privatisation of economy, the Privatisation Council on its session from 09.07.2008. passed a Decision on initiation of the process of capital increase of Elektroprivreda Crne Gore AD Nikšić. On the same session a Decision was made on appointment of the Tender Panel for implementaiton of the process of capital increase of EPCG, with the following members:

1. Vujica Lazović, Chairman (Deputy Prime Minister of the Government of Montenegro for Economy policy);
2. Branimir Gvozdenović, member (Minister for Economic Development);

3. Branko Vujović, member (director of the Montenegrin Agency for restructuring of economy and foreign investments);
4. Ivan Brajović, member (member of Parliament of Montenegro);
5. Rajko Kovačević, member (member of Parliament of Montenegro);
6. Predrag Bošković, member (Chairman of Board of directors of RUP);
7. Srđan Kovačević, member (Chairman of Board of directors of EPCG);
8. Ranko Vojinović, member (Executive director of EPCG);
9. Milorad Katnić, member (Deputy Minister of Finance);
10. Mili Čanović, member (Deputy Minister for Economic Development);

Selection of an advisor for the process of capital increase

After preparation of the tender documents for selection of an advisor for the process of capital increase, on 04.08.2008 the Tender Panel sent an invitation letter for submission of bids to addresses of 13 consulting companies: The bids were submitted by seven companies as follows:

1. ABN AMRO Corporate Finance Limited,
2. Erste Corporate Finance GmbH,
3. European Privatization and Investment Corporation- EPIC,
4. ING Wholesale Banking, London Branch,
5. RAIFFEISEN INVESTMENT AG,
6. Unicredit – Zagrebačka banka,
7. KBC Securities NV,

The Contract was signed with the first-ranked bidder Unicredit – Zagrebačka banka.

Realized activities

The following activities were realized in the past period:

Strategy of capital increase

The Strategy of capital increase will give answers to key questions in implementation of the process of capital increase. Under this document the following reports will be elaborated:

- Report on Sector and Regulatory Framework Analysis,
- Report on SWOT Analysis,
- Report on Market Analysis,
- Report on Strategy of Capital Increase

Due Diligence of Elektroprivreda Crne Gore

Due Dilligence of the Company was prepared covering the following segments:

- Operational Due Dilligence,
- Financial Due Dilligence,
- Legal Due Dilligence,
- Technical and Economical Due Dilligence.

Preparation of the data room

In order to implement the process of capital increase it was necessary to prepare the data room enabling the potential investors to find all available information about the company on one place.

Though significant number of required documents were already collected, these activities represent a continuous process and they will last until the final deadline for submission of bids by strategic partners.

Structure of transaction

The Government of Montenegro decided to exclude the Transmission from this process (it was necessary to unbundle the Transmission prior to finalisation of the Tender process) and it defined the following transaction structure:

- A strategic partner will be offered to buy 11,457,357 of the existing shares owned by the State of Montenegro and a right to simultaneously subscribe to 11,457,357 of newly issued shares of EPCG, that will jointly make approximately 18.3% of the total main capital of EPCG.
- A strategic partner will be responsible to offer to purchase minority shares at a price of a share as realized in the Tender process,
- After entry into ownership structure of the company, a management contract will be signed with the strategic partner allowing him management control over the Electric Power Company,
- After expiry of the five year period, in case he meets beforehand determined efficiency improvement parameters and implements the investment plans, the strategic partner will be entitled to buy additional shares from the Government and to ensure majority ownership in the EPCG. The Government may also, after paying a beforehand contracted amount, buy out shares from the selected investor.

Qualification criteria

In order to find the best possible investor, qualification criteria is defined in the following manner:

- Financial:
 - Revenues must exceed €250 million or an equivalent amount in the last financial year,
 - The value of total assets must exceed €500 million or equivalent amount for the last financial year;
 - It must have a credit rating of at least „BBB minus“ awarded by a rating agency Standard & Poor's or Fitch or „Baa3“ by Mood's.
- Technical:
 - Volume of electricity generated of distributed must be at least 1,500 GWh during the last financial year.

8. REALIZATION OF ELECTRIC POWER BALANCE

8.1. Introductory Notes

Electric power balance in 2008 was realized in very complex conditions, which characterize the electric power system of Montenegro over a quite long period of time. The most important of them are:

- Big electricity deficit;
- Consumption of Steel Works Nikšić is considerably exceeding the planned one;
- Difficult conditions of procurement and provision of funds for electricity import;

- Lack of funds for necessary capital investment maintenance and regular maintenance of electric power facilities;
- Distribution network losses are still significantly higher than the optimum ones;
- Planned collection rate was not realized this resulting in negative consequences for liquidity of the Company as a whole;
- Extremely unfavourable hydrological conditions throughout the most of the year;
- Because of unfavourable hydrological conditions the electricity generation at “Piva” HPP was lower than the planned one (for approx. 128 GWh), which resulted in negative effects for the EPCG on the basis of Agreement on long-term business technical cooperation with EPS;
- High taxes which the municipalities determined as a lump sum significantly jeopardized the current business operations and liquidity of EPCG.

However, having in mind all the above-mentioned circumstances, it can be concluded that during the year 2008, a high degree of security of operation of the electric power system of Montenegro was achieved, i.e. electricity supply to consumers was at a satisfactory level.

8.2. Power Balance Realization Indicators

8.2.1. Generation

Total net electricity generation realized in Montenegro in the year 2008 amounted to 2686.9 GWh, which is 136.1 GWh or 4.8% less than planned, i.e 642.2 GWh or 31.4% more than realization from the previous year.

The highest monthly generation was realized in December (332.6 GWh) and lowest in May (103.5 GWh).

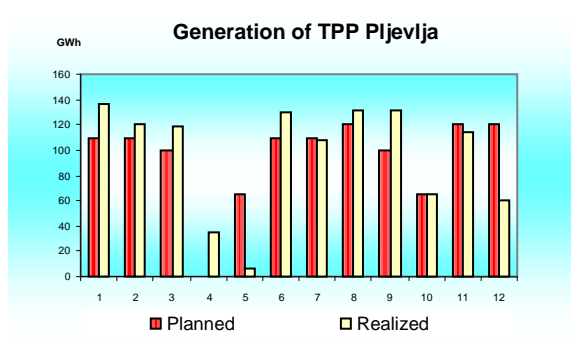
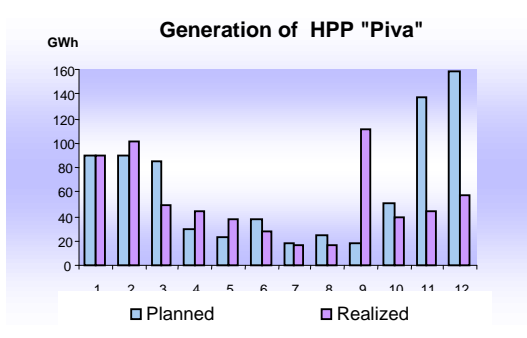
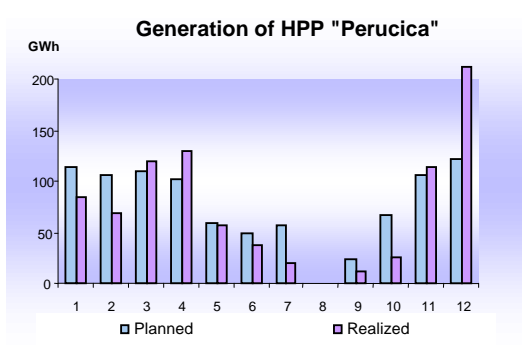
HPP "Perućica" generated 878.2 GWh, which is 31.8 GWh or 3.5% less than planned, i.e. 139.6 GWh or 18.9% more than generated in the year 2007. Generation below the plan is a result of unfavorable hydrological conditions throughout the year.

HPP "Piva" generated 634.2 GWh, which is 127.8 GWh or 16.8 % less than planned, i.e. 111.2 GWh or 21.3 % more than realized in the previous year. There was no spilling of water in HPP “Piva”.

Small HPPs generated 19.1 GWh, which is 1.9 GWh or 9% less than planned, and more than the realization in the previous year by 2.4 GWh or 14.4%.

TPP "Pljevlja" generated 1,155.4 GWh, or 25.4 GWh or 2.2% more than planned, i.e. 389 GWh or 50.8% more than realization in the previous year.

Graphical presentation of realized generation per months

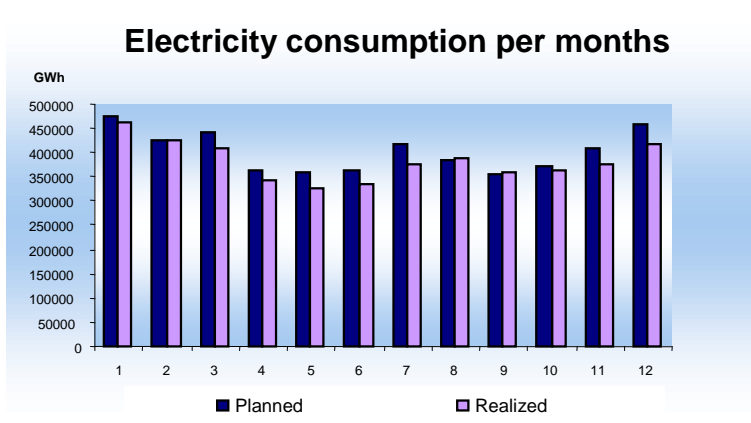


8.2.2. Consumption

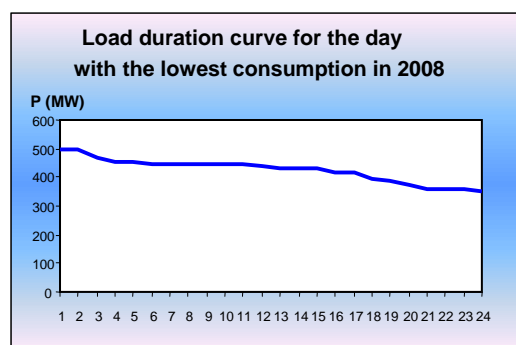
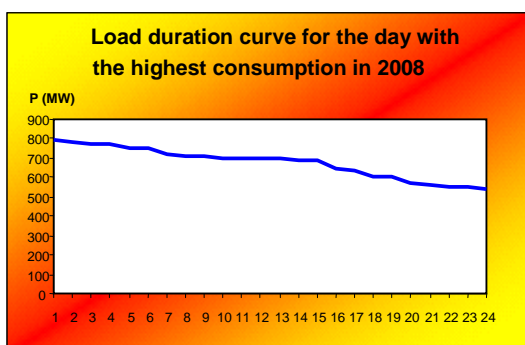
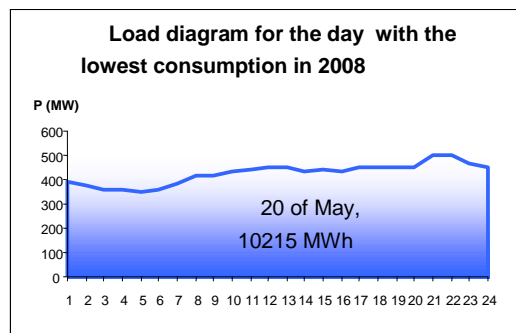
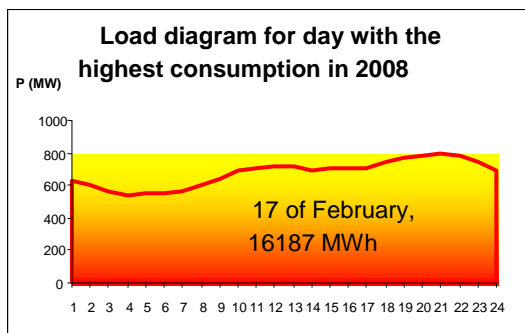
Gross electricity consumption in Montenegro, in the year 2008, amounted to 4,584.5 GWh, i.e. 218.5 GWh or 4.5% less than planned, i.e. 62.2 GWh or 1.3% less than realization in the previous year.

The characteristics of realized consumption are as follows:

- The highest monthly consumption on the transmission network was realized in January (462.2 GWh), and the lowest in May (327.7 GWh);



- The highest daily consumption was achieved on February 17 (16,187 MWh), and the lowest on May 20 (10,215 MWh);



- The highest average peak load was registered on February 17 in the 21st hour (791 MW), and the lowest on June 15 in the 5th hour (328 MW), excluding the days when lower loads were realized due to disruptions in the electric power system.

Consumption structure:

- The Aluminum Plant (KAP) realized a consumption of 1,705.3 GWh, which is 315.7 GWh or 15.6% lower than planned, i.e. 244.7 GWh or 12.6% less than realised in the previous year;
- The Steel Works realized a consumption of 228.2 GWh, which is 28.2 GWh or 14.1% more than planned, i.e. 46.1 GWh or 25.3% more than realized in the previous year;
- Railways of Montenegro realized a consumption of 21.6 GWh, which is 3.4 GWh or 13.6% less than planned i.e. 1.8 GWh or 7.7% less than consumption realized in the previous year.
- Gross distributive consumption amounted to 2,472.9 GWh, which is 85.9 GWh or 3.6% more than planned, i.e. 139.1 GWh or 5.9% more than consumption realized in the previous year.

In the structure of the consumption, Gross consumption and Net consumption, the participation of individual consumers was as follows:

Relative to gross consumption	Relative to net consumption
-------------------------------	-----------------------------

KAP	37.2 %	38.5 %
Steel Works	5.0 %	5.2 %
Railways MN	0.5%	0.5%
Direct customers	42.7 %	44.2 %
Gross distribution	53.9 %	55.8 %
Transmission losses	3.4 %	

8.2.3. Procurement of electricity

In the year 2008 the total amount of 2,806.4 GWh was procured from other electric power systems, which is 554.8 GWh or 19.8% less than in the previous year.

For the purpose of covering the planned deficit, and in accordance with the determined measures for realization of the Balance, EPCG after launching an annual tender entered into the relevant contracts.

In order to cover the deficit that couldn't have been envisaged in the annual balance, additional volumes of electricity were contracted and imported in certain periods of the year.

The total of 1,220.4 GWh was received from the Electric Power Utility of Serbia (EPS) based on the Agreement on LTBTC - Long-Term Business-Technical Cooperation (whereof 1,078.1 GWh in accordance with the Article 4 and 142.2 GWh in compliance with the Article 18, whereof 30.7 GWh were purchased).

Deviations from the electricity exchange programs (compensation) and island supply to the areas which are connected to 110 kV interconnector overhead lines, and which are not in parallel operation (in the direction of purchase), amounted to 14.5 GWh in 2008.

From the electric power systems abroad, as well as from the independent dealers, i.e. from the import, the EPCG and the Aluminum Plant Podgorica purchased the total amount of 1,571.5 GWh, which is in total less than the planned import by 91.5 GWh or 5.5%. The import in the year 2008 was lower than the import in the previous year by 536.4 GWh, i.e. 25.4%. The import realized by the Aluminium Plant was 36.3% lower than planned, while the import by EPCG was 24% higher than the plan.

The EPCG imported 1,084 GWh (taking also into account the procurement from EPS in accordance with Article 18), whereof 1082.2 GWh was purchased and 1.8 GWh was obtained on the basis of the exchange.

Contracts:

- EFT – 725.3 GWh, (according to annual contract 551.8 GWh, according to additional contracts 173.5 GWh);
- EZPADA – Czech Republic – 25 GWh
- HSE – Balk.Ener. – 0.6 GWh
- ATEL Energy – Germany – 50.6 GWh;
- GEN-I – 12.4 GWh;
- ERS - purchase – 105.4 GWh;
- RUDNAP – 77.3 GWh;
- KORLEA – 4.1 GWh;
- RE Trading – 42.1 GWh;
- E.O.N. – 4.9 GWh;
- ČEZ – 0.5 GWh.
- BIH – 3.4 GWh.

- EPS (Article 18 of the Agreement on LTBTC) – 30.7 GWh.

Exchange:

- KESH – Albania – 0.25 GWh;
- EPS – Srbija – 0.15 GWh;
- ERS – 1.4 GWh.

Import of the Aluminium Plant in the year 2008 was 518.2 GWh.

8.2.4. Delivery of electricity

During the year 2008 the electric power system of Montenegro delivered to the other systems the total amount of 908.8 GWh, which is 149.7 GWh or 19.7% more than in the previous year.

Based on the Agreement on LTBTC, EPS received 796.5 GWh which is 148.9 GWh or 23% more in comparison with the previous year. Out of this volume:

- On the basis of the Article 3 of the Contract on LTBTC (generation of the HPP “Piva”) 634.2 GWh (16.8% less than planned) and
- On the basis of the Article 18 of the same Contract 162.3 GWh.

At the end of the year 2008, the total EPCG’s debt in energy towards the EPS amounted to 19.4 GWh, whereof 16.3 remains as an obligation for 1:1 exchange as a support in breakdown conditions, and the remaining volume is a result of exchange.

Deviations from the electricity exchange programs, compensations and island supply (Bileća and Čajnice) in direction of supply to the Electric Power System (EPS), were realized with 5 GWh.

The EPCG delivered to the systems abroad the total amount of 107.3, whereof:

Export:

- EFT – 18.2 GWh;
- ERS – Republic of Srpska – 5.8 GWh;
- EZPADA – 17.5 GWh
- KORLEA – 13.9 GWh
- ČEZ – 2.1 GWh
- RUDNAP – 14.0 GWh
- Re Trade – 2.6 GWh
- ATEL – 1.8 GWh
- HSE – Adria – 2.5 GWh
- HSE – Balkan Energy – 0.3 GWh
- HSE – Slovenia – 0.8 GWh
- GEN-I – 7.8 GWh

Exchange:

- ERS – 13 GWh;
- UNMIK – KEK 1.5 GWh;
- KESH – Albania – 5.0 GWh;
- EZPADA – 0.5 GWh

At the year end, the remaining debt of EPCG to foreign entities amounts to 52.1 GWh, whereof: KESH (Albania) 1.5 GWh, ESM (Macedonia) 8.1 GWh, EFT 2.33 GWh, UNMIK-KEK 27.4 GWh, HEP 1.5 GWh and EPS 19.4 GWh, while the claim of EPCG from foreign entities is 22.55 GWh, whereof: EFT 1.55 GWh, ESM (Macedonia) 3.8 GWh, UNMIK-KEK 16 GWh, KESH (Albania) 1.1 GWh and Bosnia and Herzegovina 0.1 GWh.

8.2.5. Transit

In the year 2008 a transit in the amount of 1,050 GWh was registered and realized transit amounted to 1,521.1 GWh.

8.2.6. Losses

a) Transmission network:

Electric power losses in the transmission network of the EPCG in the year 2008 amounted to 156.6 GWh, which is 13.4 GWh or 7.9% less than planned, i.e. 0.6 GWh, i.e. 0.4% less than the realization from the previous year.

According to the established methodology, the losses in transmission are presented in relation to the total electricity in the transmission network, which amounted to 6,049.5 GWh. The electricity losses in the transmission network have a downward tendency, i.e. in 2005 they amounted to 3.2%, in 2006 they amounted to 2.7%, in 2007 they amounted to 2.65% and in 2008 they amounted to 2.59%.

b) Distribution network

Total losses realized in the distributive network in 2008 amounted to 568.0 GWh, which is 116 GWh or 25.7% more than the plan, i.e. 37 GWh or 6.9 % more than the realization in the previous year. In relation to the total consumption of the distributive consumers, the losses make 22.97%. In relation to the total consumption in the system, distribution losses make 12.4%.

8.2.6.1. Activities aimed at reducing distribution losses

It is an undeniable fact that the non-technical – commercial electricity losses are still one of the greatest problems of FU Distribution, and hence of the entire system of EPCG A.D. Nikšić. The measures and activities undertaken in order to resolve this issue are as follows:

- Registering of consumers illegally connected to the distributive network, into the data base of FU Supply,
- Introduction of continuous reading and increase of reading rate of the electricity meters and measuring devices,
- Replacement of 21,485 defective electricity meters,
- Visual inspection of consumers' measuring points and logic control of consumption,
- Targetted control of 44,403 consumer's measuring points, out of which at 2,513 points the illegal consumption was discovered,
- 1,507 criminal charges were brought to the competent courts for theft of electricity or for removing or damaging of the official seal or the sign, as well as institution of offence

proceedings at the Ministry for Economic Development, for mechanical damaging of the electricity meters, as well as against illegal connecting of 906 consumers,

- In the period 30.04. – 31.07.2008 authorized staff of Distribution centers identified 5,289 customers illegally connected to distribution networks, while the technical departments of FU Distribution estimate that the number of illegally connected customers is higher than 10,000 for all categories,
- Maintenance and reconstruction of power facilities,
- Calibration and certifying of the consumers' measuring devices which are in operation, etc.

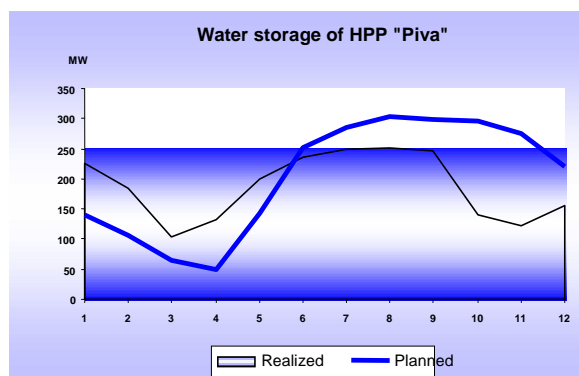
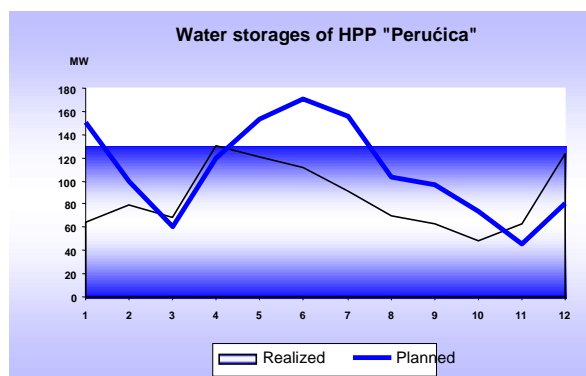
8.2.7. Water Storages

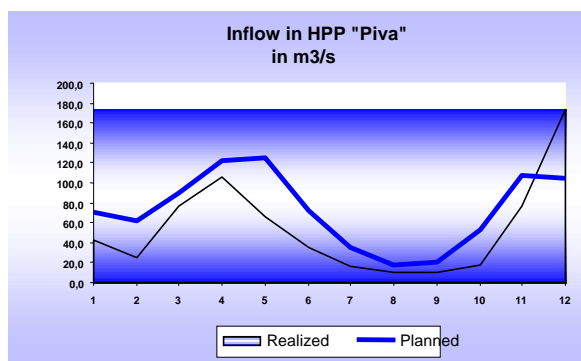
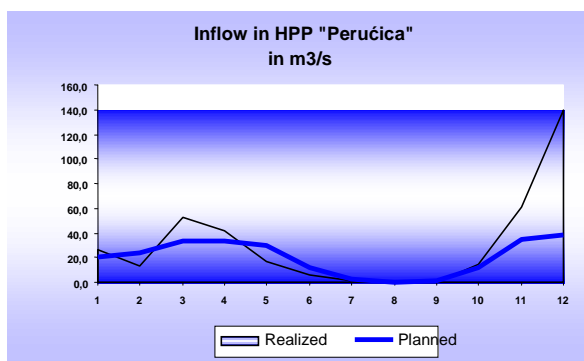
A detailed overview of water storage situation, on the first day of the month, is given in the below Table:

Month	HPP PERUĆICA		HPP PIVA	
	Realized (GWh)	Planned (GWh)	Realized (GWh)	Planned (GWh)
January	64	150	184	107
February	80	110	104	64
March	69	60	131	49
April	131	120	200	143
May	120	153	236	251
June	111	171	248	286
July	91	156	251	303
August	69	103	246	297
September	64	97	141	295
October	49	74	122	276
November	63	46	156	221
December	123	80	297	139

In the course of the previous year, hydrological circumstances in Montenegro were extremely unfavourable. At the beginning of the year 64 GWh was available in the water storages of HPP “Perucica”, which is 86 GWh less than the plan. The average annual water inflow amounted to 31.1 m³/s, which considerably exceeds the plan (20.1 m³/s), thanks to extremely high water inflows in November and December.

The HPP “Piva” operated with the average monthly water levels, ranging from 658.7 m asl in January up to 667.1 m asl in December and achieved an average annual water level of 655.3 m asl. The average annual water inflow was 54.6 m³/s. At the end of the year the water storage was brought to 296.6 GWh, which is 157.6 GWh or 113.4% above the plan.





8.2.8. Coal and Fuel Oil

In order to achieve the generation of 1,155.4 GWh, which is 2.2% more than the planned, TPP Pljevlja consumed totally 1,635.842 tons of coal, which means that an average specific onsumption of 1,416 kg/kWh was achieved and in the year 2007 it was 1,389 kg/kWh.

The coal consumption in the year 2008 in comparison with the year 2007 was 53.58% higher and the power generation was 50.8% higher.

Coal deposit at the beginning of the year was 50 kilotons and at the end of the year it was 80 kilotons or 60% more than the planned quantity.

In 2008 the thermal power plant was in operation for 6,498 h and was in overhaul for 1,896 h, because of lack of coal it was out of operation for 181 h, due to breakdown it was out of operation for 159 h. Total break in operation of the TPP in 2008 amounted to 2,236 hours.

Because of irregular coal supplies, unplanned breaks in operation amounted to 811 h, which is equivalent to the lost power generation in the amount of 150 million kWh. The TPP service factor was 0.74, the factor of utilization of the capacity was 0.69, the operational availability factor was 0.76 (overhaul coefficient was 0.215) and the reliability factor was 0.97.

The fuel oil consumption in the last year amounted to 2691 tons, which was 10.3% more than the planned. Such fuel oil consumption is a result of a bigger number of breaks in operation and outages of the TPP.

9. OPERATIONAL AVAILABILITY AND MAINTENANCE OF FACILITIES

Despite the very exerted operation of the electric power system of Montenegro and taking into account the fact that certain areas in the Republic are supplied only from single 110 kV OHL (Ulcinj, Andrijevisa with Plav and Gusinje and Vilusi) and the coastal area is supplied through capacities which do not fulfill the N-1 criteria; it can be stated that there were no longer disruptions in supply of the consumers with electricity at the point of transmission.

As a whole, the operational availability of the electric power facilities and plants in the year 2008, taking into account the insufficient capacities and one-side supply for certain areas, was good. Particularly good operational availability was shown by TPP "Pljevlja", as well as by most of the electricity transmission facilities, which was also confirmed by very high availability and readiness.

9.1. Generating facilities

Individually, the power plants realized the following availability coefficients:

- HPP "Perućica" 75%,
- TPP "Pljevlja" 76% and
- HPP "Piva" 88% .

9.1.1. HPP "Perućica"

Operational readiness of all generating units at HPP „Perućica“ and at small-scale hydropower plants was maintained at a very high level.

Overhaul of the devices and plants was performed mainly in compliance with the plan and mostly thanks to that fact, a high level of operational readiness was maintained.

The following works were performed under the overhaul:

- Overhaul of civil structures which implied:
 - Geodesy survey of civil structures,
 - b) Works related to remedy of damages on civil structures (dams, canals, power house, warehouse area, machinery, workshops, guard houses, small hydro power plant, etc.)
 - Removal of vegetation along the dams, from the areas along the canals, from the compensating reservoir, from the area alongside the penstock, from the switchyards, from the yard of the power plant, from the areas besides the structures of small hydropower plants, etc.
- Overhaul of valve chambers of the water intake system, which implies the works on electrical and mechanical equipment of the auxiliary and the main valves, cleaning device, diesel generating unit, etc.
- Overhaul of the penstock which included: corrosion protection of part of the penstock, overhaul of expansion joints, inspection fittings, air valves, penstock supports, dynamic tests for the purpose of establishing stress condition at certain critical points of the penstock, etc.
- overhaul of the equipment in the power house, which implied:
 - Overhaul of mechanical equipment (turbine equipment, turbine shut-off valves equipment, regulating equipment, auxiliary supply units' equipment, etc.)
 - Overhaul of electrical equipment (auxiliary power supply equipment, generator equipment, turbine equipment, auxiliary units equipment, protection, equipment in the central control room, telecommunication equipment, etc.). Also, the main overhaul of the generator No. 6 was performed.
- Overhaul of the equipment in 110 kV switchyard, which included overhaul of power transformers and instrument transformers, overhaul of surge arresters, overhaul of circuit breakers in generator bays and circuit breakers in overhead transmission line bays, overhaul of sections A and B, etc.

- Overhaul of auxiliary devices which implied overhaul of: cooling water system, compressed air system, drainage system, stable fire-fighting systems, cranes and hoisting devices, equipment in the workshops, etc.
- Overhaul of small hydropower plants, which comprised overhaul of the entire electrical and mechanical equipment.

Capital investment projects

Within capital investment projects the following envisaged activities were performed:

- Reconstruction and modernization of the unit No. 4. Currently the unit No. 4 is under the trial run regime.
- Significant activities concerning researching and finding out possibilities for better utilization of waters from Nikšićko polje were implemented. After implementation of these projects significant increase of electricity generation is expected at HPP „Perućica“.
- Significant activities relating to installation of the unit No. 8 at HPP „Perućica“ were completed. Energoprojekt's technical documentation from the previous years was updated, the Feasibility Study for installation of the unit was prepared, as well as the Tender Documentation for fabrication, delivery and installation of the unit.
- Certain activities related to implementation of projects which will be financed from the credit of the World Bank were completed (replacement of the cleaning machine and the thrash rack at Vrtac valve chamber, as well as fabrication and delivery of one runner for the needs of the units No. 6 and 7). Within these activities, the Tender Documentation was prepared and after adoption of this documentation, implementation of the above mentioned projects will start during this and the following year.

9.1.2. HPP "Piva"

The HPP "Piva" operated with the average monthly water levels, ranging from 658.78 m asl in January up to 667.13 m asl in December and had an average annual water level of 655.93 m asl.

Its units were in operation for 2285 hours on the average each, with the average number of start-ups of 271.

In the course of the year, the regular annual overhaul was carried out on all three units.

- Overhaul of unit A1 was carried out in the period from 15. 10. to 01. 11. 2008.
- Overhaul of unit A2 was carried out from 25. 08. to 05. 09. 2008.
- Overhaul of unit A3 was carried out in two parts:
 - I part: from 03. 07. to 13. 07. 2008.,
 - II part: from 09. 08. to 18. 08. 2008.

9.1.3. TPP "Pljevlja"

Preparation of overhaul of plant and equipment

Electric power balance of Republic of Montenegro for 2008 envisages the regular annual overhaul of plant and equipment of TPP «Pljevlja» to be carried out in the period from 01. 04. 2008. to 15. 05. 2008.

Overhaul was carried out in the period from 11. 04. 2008. to 29. 05. 2008.

Maintenance works (surveys and overhaul, preventive-corrective maintenance) were carried out by contractors according to contracts concluded on the basis of public tenders together with Maintenance Department teams from TPP «Pljevlja».

Main works were carried out on the boiler unit. The second level of pipe air heater of the I degree was replaced, reduction station of soot blower was reconstructed, lighting system for fuel oil burners was commissioned and position of fire in the boiler. System of pipes of boiler evaporator in the zone of extracting of hot air for crushing mills was checked in detail and overhauled, thickness of screen pipes was checked as well as boiler evaporator; cleaning, inspection and surveys of other heating surfaces of boiler. Overhaul of crushing plants was carried out, as well as of flue gasses ventilators, overhaul of key regulation reinforcement of boiler, overhaul of masonry in canals and thermal insulation.

On other facilities type works of overhaul and surveys were carried out. Out of the major overhaul works, replacement of roofs of slanting coal conveyors and rehabilitation of hydrant network in the yard of TPP should be mentioned.

According to general opinion the quality of overhaul works was good, which should ensure reliable and secure operation of TPP in the post overhaul period.

9.2. Transmission Facilities

Plan of overhaul works, survey and examination of the electric transmission facilities, the works related to regular and capital investment maintenance, as well as purchasing of the spare equipment and spare parts for these purposes, in the period January 1st, 2008- December 31st, 2008 was realized in the planned volume.

9.2.1. Overhaul lines

Implementation of the plan of examinations, surveys and overhauls during 2008 is presented in the Table below:

	EXAMINATIONS planned/realized	SURVEYS planned/realized	OVERHAUL planned/realized
400 kV	6/5+1*	0/0	2/2
220 kV	13/13	0/0	1/1
2x110 kV	4/4	0/0	0/0
110 kV	45/45	0/0	5/4
110(35)kV	10/10	0/0	0/1
Total	78/78	0/0	8/8

Note:

- 1* - Examination of 400 kV OHL Podgorica-Ribarevine was not completely performed (section Crkvine-Ribarevine was not examined) due to bad weather conditions, and it will be finalised in the beginning of 2008;
- Overhaul of 110 kV OHL Perućica-Danilovgrad, which includes replacement of suspension equipment and repairing of the conductor damaged at support terminals, was not performed because AlFe 150/25 mm² wire planned to be used for these works, was used for reparation in emergency accident on 110 kV OHL Nikšić-Bileća, at the end of March this year. Since purchasing of new quantities of this wire is in progress, this overhaul is postponed for 2008;
- 110 (35) kV OHL Pljevlja-Žabljak was overhauled, even though it was not planned, because of a large number of damages that were detected during the first regular inspection;
- 110 kV OHL Trebinje-Herceg Novi was overhauled, although overhaul was planned to be carried out in 2008, because of providing no-load condition, upon request of the Electric Power Company of the Republic of Srpska;
- After inspection of the overhead lines, all the defects for which it was estimated that they could have an impact over operational security of the overhead lines were eliminated;
- Felling of trees on routes of overhead lines was carried out in the planned scope;
- In this period the Department for maintenance of OHLs carried out 48 emergency interventions.

9.2.2. Transformer Stations

Implementation of the plan of overhauls and surveys in 2008 is presented in the Table below.

	OVERHAUL planned/realized	SURVEYS planned/realized
400 kV	2/2	0/0
220 kV	3/1	9/12
110 kV	10/10	19/23
35 kV	8/13	11/15

In the TS Pljevlja 2 it had been planned to carry out overhaul of 220 kV circuit breakers in transformer bays T1 and T2. On the basis of transient resistances measured on their contacts as well as due to a small number of operations they had, it was decided to carry out surveys of these circuit breakers instead of the planned overhauls.

The new equipment that was installed in the period from 01.01.2007 to 31.12.2007, is as follows:

- 400 kV circuit breaker pc. 1
- 220 kV circuit breaker pc. 3
- 110 kV circuit breaker pc. 8
- 35 kV circuit breaker pc. 19
- 110 kV disconnecter pc. 6
- 400 kV instrument transformer pc. 3
- 220 kV instrument transformer pc. 10
- 110 kV instrument transformer pc. 20
- 35 kV instrument transformer pc. 4
- 220 kV surge arrester pc. 6
- 110 kV surge arrester pc. 42

- 35 kV surge arrester

pc. 36

9.2.3. Interventions

During the reporting period 75 urgent interventions were carried out on pertaining equipment. Interventions that required engagement of a bigger number of staff include the following:

- Replacement of post-type insulator and reparation of SF₆ leakage on 110 kV circuit breaker, in transformer bay T2 in TS 400/110 kV Podgorica 2.
- Dismantling of damaged equipment in transformer bay T2 in TS 400/110 kV Podgorica 2.
- Replacement of insulated bushings at 35 kV OHL Petrovac 2, at TS 110/35 kV Budva.
- Replacement of insulated bushings at 35 kV OHL Budva 2, at TS 110/35 kV Budva.
- Reparation of SF₆-gas leakage on 220 kV circuit breaker, in transformer bay T2 at TS 220/110/35 kV Podgorica 1.

9.3. Distributive Facilities

Most of the investments in 2008 related to new facilities in secondary network, because the facilities in the primary network require far larger funds. Rehabilitation of the facilities was minimal.

The maintenance plan was realized in the part relating to regular overhaul of transformer stations and overhead lines, particularly within the preparation for the summer season. The other activities planned to be performed on the network, were limited by availability of skilled labour (in particular of electrical fitters profession), by purchases of the equipment and the material.

These investment did not significantly improve the operational readiness, but they enabled maintenance of electricity supplies to the distributive consumers.

After analyzing types and scopes of the executed works, it can be concluded that besides from interventions, the planned activities were also executed, which resulted in a lower number of breakdowns and less disruptions in electricity delivery.

An outline of the executed works, on the basis of the reports of certain distribution centers, would be as follows:

- Rehabilitation of 35 and 10 kV OHLs after the failures, the interventions such as replacement of particular poles or parts of the poles, replacement of the damaged wires, insulators, felling of trees in the route of overhead lines,
- Regular periodical testing and adjustment of the protection devices at the transformer station 35/10 kV,
- Repairs of the equipment (circuit breakers and disconnectors) 35 and 10 kV,
- Replacements of the power transformers (they were planned in order to increase the capacity) and emergency replacements,
- Repairs of transformers after failures,
- Reconstruction of the overhead low voltage network – mainly replacement of worn-out poles and conductors in the low voltage networks,
- Interventions on the cable network – installation of shorter lengths, repairing of the faults, installation of cable joint boxes and terminals.

To enable implementation of maintenance of the distributive network facilities in conditions of limited financial possibilities, it is necessary:

- to provide material necessary for maintenance of the distributive network: wooden and concrete poles of different dimensions, wires and self-supporting cable bundles of different cross-sections, high-voltage and low-voltage cable of different sizes, cable accessories, DTS 10/0.4 kV, in accordance with the technical recommendation TP 1b, pole-mounted TS 10/0.4 kV, 50 to 160 kVA capacity,
- to provide testing devices and equipment, cross-country and special-purpose vehicles, in order to upgrade the level of technical equipment and to improve the efficiency of maintenance teams.

The characteristics which continually illustrate the situation related to the distributive network for many years already and which even deteriorate in the situation of limited investments are:

- Operation under severe operating conditions, during a period which exceeds operating lifetime of the equipment installed in the plants,
- Obsolete technical designs and old equipment which does not meet up-to-date requirements,
- Disproportional growth of the secondary distributive network, without adequate expansion of the primary network, which results in overloading of the 35 kV overhead lines and 35/10 kV transformer stations,
- Increase in electricity consumption, intensive construction in certain areas without proper planning, which has not been accompanied with adequate development of the network,
- Insufficiently equipped teams having insufficient number of staff to be engaged on the regular maintenance, which was increased because of the condition of these facilities,
- Slow establishing of on-load conditions, after failures, because a system for remote monitoring and control does not exist,
- Technical losses (the growth of which is an indicator of the rest of the above mentioned characteristics).

In order to improve these characteristics to a certain extent, considerable investments are necessary, not only for the maintenance, but also in the new structures.

In order to meet the requirements of the most vulnerable areas in terms of electricity supply, a list of priorities was prepared, based on the established criteria. The most urgent projects were nominated for donations/loans; financing of implementation of a part of the Projects has been provided by signing of the Contract with the *Schneider Electric* in July of 2008, for the commodity loan of the French Government to the amount of EUR 8,479,000.00. The most of the 10/0.4 kV transformer stations from the mentioned loan were already installed. The tender documents are being prepared for implementation of works on construction of 35/10 kV transformer stations from the commodity loan of the French Government.

In the year 2008, the following investment activities were implemented in the distribution network:

- 20 pole-mounted transformer stations were built
- 32 distributive transformer stations were built
- 41,925 meters of low voltage network reconstructed
- Approximately 10,000 poles installed
- 15,444 meters of 10 kV cable laid
- Reconstruction of one 35/10 kV transformer station performed

10. COLLECTION OF RECEIVABLES FOR ELECTRICITY DELIVERED

During the year 2008, FU Supply prepared, processed and issued 12 monthly invoices to tariff customers. All invoices were delivered to the Post Office of Montenegro for further distribution to consumers in line with envisaged time schedule.

Total gross invoiced realization in the year 2008, with the VAT, for the distributive consumers amounted to €211,169,301.84, i.e. for category Households the amount of €102,242,361.97 was invoiced and for category Otherconsumption €108,926,939.87.

Pursuant to the Decisions of the Government of Montenegro, in the year 2008 the consumers from the households category and other consumption category were subsidized. Accordingly, the Ministry for Economic Development of the Government of Montenegro was invoiced on that basis with €3,041,444.70.

10.1. Collection of receivables from direct consumers

In the year 2009, the direct consumers were invoiced for 1,436,919,033 kWh amounting to **€69,687,991.52** (with VAT). The amount of **€65,033,514.83** was collected from direct consumers. The realized collection from the direct consumers in the year 2008 is given in the Table below:

Direct consumers	Collected until 31.12.2008.
KAP-energy	50,537,523.93
KAP-interests	6,482.97
Steel Works Nikšić	13,783,209.69
Railways of Montenegro	706,298.24
Total	65,033,514.83

10.2. Collection of receivables from distributive consumers

Planned collection rate for the invoiced electricity to distributive consumers, for the year 2008, was 94%. The total amount collected was €190,726,965.68, i.e. 90.32% of the invoiced electricity. What is particularly important to mention is the fact that the structure of collection in the year 2008 is considerably better than in the previous years, i.e. level of collection based on payment through bank transfer orders was significantly improved and it is now 89.25% of the total realized collection.

New models of payment for electricity consumed were introduced in the year 2008 and they relate to a possibility to pay electricity consumed with the bonds of the Pension Insurance Fund. The amount of €4,089,755.00 was collected through bonds.

The collection rate for the year 2008 that was envisaged in accordance with the business policy of FU Supply was conditioned with a number of factors, whereof the most important are the following:

- Majour problems with disconnection of tariff customers that are not paying regularly their debt for electricity they used

- Modest results of collection of receivables from electricity delivered through courts.

An overview of consumers that were taken to court during the year 2008 and the amount of receivables collected from these consumers is given in the Table below:

Category	Total number of court cases	Total amount of receivables from the court cases	Collected receivables in €
Households	40,009	19,164,303.43	758,172.53
Other consumption	286	3,573,478.31	181,255.88
TOTAL	40,295	22,737,781.74	939,428.41

11. HEAD OFFICE OF THE COMPANY – COMMON FUNCTIONS

11.1. Development Researches

The following main activities were carried out under the Department for Development Researches in the period January-December 2008:

- Hydrological investigations for the purpose of SHPPs construction in Montenegro (Project 2). This Project is implemented on the basis of the donation of the Government of Norway from 2006 and it comprises: selection of the locations, construction of the hydrological stations, hydrological measurements at 15 new locations and processing of measurement results. During this period the locations were selected, hydrological stations constructed, measurements on site works finalised. The Contractor for these works is Hydrometeorological Institute of the Republic of Montenegro and control of the works is performed by the experts of this department.
- Preparation of a Joint Study EPCG-Statkraft (Norway). Based on the Memorandum of Understanding signed between EPCG and Statkraft, the activities from the previous year related to preparation of the Joint Study were completed. Within this Department, the documentation sent by Statkraft was analyzed, supplemented and translated and also some parts of the mentioned document were prepared. The experts from this Department participated in organization of meetings and in meetings with the Statkraft's representatives, and final adoption of the Study was done in March 2008.
- Activities on preparation of the tender documents for the Morača HPPs. The activities are implemented under the Ministry for Economic Development. Experts from EPCG participated in preparation and in reviews of the tender documents for selection of a consultant, prequalification tender, information reports about the project, contract for consulting services, provision of technical information to consultants and interested companies, terms of references for consultants and for spatial plans, defining of connection of HPPs to the electric power system. Under these activities, the existing project documents and designs that were located on several places were collected, updated and systematised.
- Preparation of Project plans for construction of SHPP Otilovići and SHPP Rošca with application to the Ministry for Economic Development for award of a consent for use of water courses and water storage.
- Investigations about the impact of transfer of the river Zeta into water storages Krupac and Slano. The documents required for the Project Optimum utilization of waters from the river Upper Zeta were prepared and a tender process was implemented for selection of a

consultant for preparation of the Impact Assessment Study. Investigation works are under way aimed at determining the quality of water. The Study is planned to be finalised by the end of 2009.

11.2. Project Design Department

During the year the Project Design Department worked for the certain parts of the Company (FU Distribution and FU Transmission) on the preparation of the following investment-technical documentation: detail designs, studies, technical solutions, tender documentation and provided other services within this Department's scope of work.

52 designs were prepared during the year.

11.3. Center for Information-Communication Technologies (Integral Information System)

The following activities were realized in the Center for Information-Communication Technologies in the period January-December 2008:

- Implementation of the World Bank Project – FMIS
- Development of WAN network - by implementing MIPNET
- Introduction of new network services - Active Directorium and VSUS for the whole EPCG
- Active support relating to applications, to the FU Distribution - for monitoring of the following:
 - a) losses – system support and support with applications
 - b) illegal electricity consumption
 - c) award of the electric power consents.
- Active support with applications to FU Supply relating to subsidies and collection of receivables
- Active information support to ad hoc committees, work teams and all users in the Company
- Maintenance of the entire hardware, system and applicative software of the business-information system at the Company level.

11.4. Introduction and Improvement of the Quality System and Environmental Protection

The Center for Quality System and Environmental Protection carried out its activities in accordance with Business Policy of EPCG and the Work Programme of the Quality Committee of the Government of the Republic of Montenegro, using positive experiences from the neighbouring countries and in line with the requirement to adopt the requirements of EU for improvement of the business systems through application of the International Quality Standards - ISO.

The main activities of the Center for Quality System were the following:

- External and internal training of staff of the Center and logistic support to Head Office, FUs and Elektrogradnja in implementation of applicable quality system standards with objective to enhance business processes of EPCG, by applying the standard of IMS-Integral Quality System Management (ISO 9001 - improvement of the quality of the processes of individual functions; ISO 14001 – environmental protection management and 18001 – occupational health and safety) in line with needs and upon a requirement from users;

- Preparation of professional quality documents in the Head Office, Functional Units and “Elektrogradnja”, upon their request and according to their priorities and regular rendering of services related to the quality documents preparation;
- Preparation of the Programme for training of the employees for the Standard ISO 18001 – Occupational health and safety;
- Monitoring of the data related to potential polluters within EPCG and identification of parameters of the potential environment pollutants, etc.;

12. ELEKTROGRADNJA

“Elektrogradnja”, being a part of the Company EPCG A.D. - Niksic”, represents a highly specialized service of the EPCG and is engaged in construction of all kinds of capital investment projects, in the capital investment maintenance and regular maintenance of the electric power facilities, as well as in the other specific works (reparation of failures, reconstructions, etc), as hired by the Company, as well as third parties.

In 2008 OU Elektrogradnja was primarily engaged in the following works:

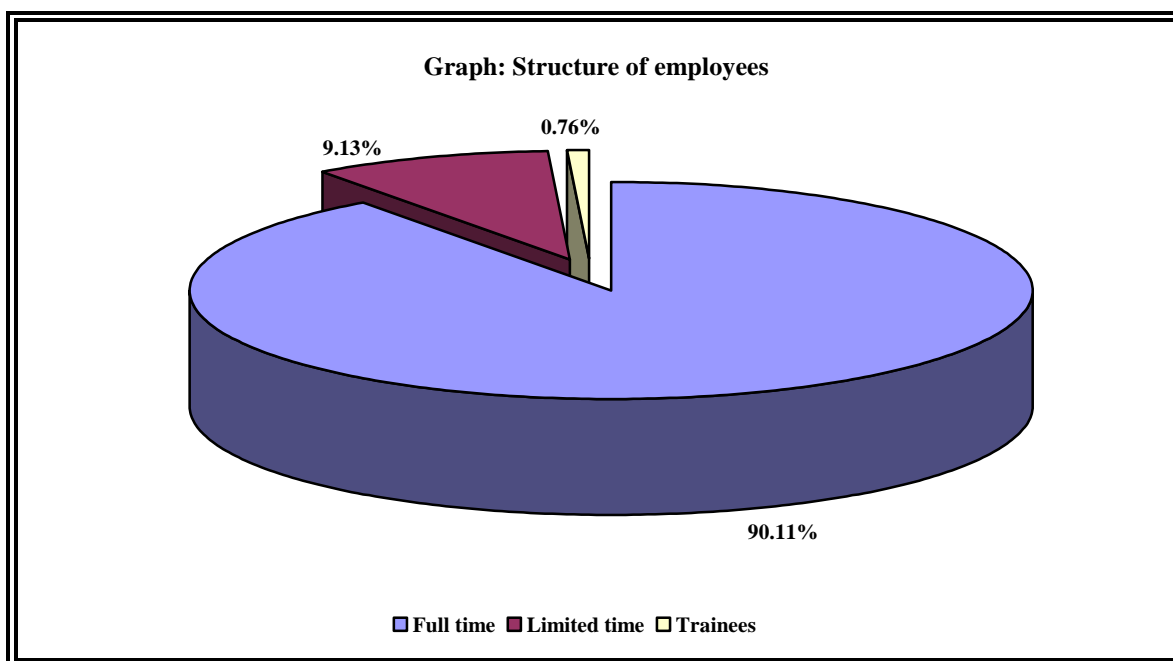
- Rehabilitation (overhauling) of the facilities,
- Rural electrification,
- Capital investment and regular maintenance and installation of steel structures,
- Manufacture of steel lattice structures,
- Manufacture of reinforced concrete anchors with the clamping rings, etc.

13. HUMAN RESOURCES POLICY

In the part of the human resources policy, as envisaged by the provisions of the Business Policy for 2008, the main emphasise was put on rationalization of the manpower and its reduction to the optimum limits, in the context of overall activities for the easiest possible transition from the phase of functional into the phase of legal separation of the integral and vertically integrated EPCG.

The total number of employees as on 01.01.2008. was 3382, whereof 3181 were full-time (permanent) employees, 72 were limited-time employees, 24 were trainees and 105 employees working under the Contract on Temporary and Occasional Employment.

The total number of employees as on 31.12.2008 was 3306, whereof 2979 full-time employees, 302 limited-time employees and 25 trainees.



This year, as well as in previous years, the **qualification structure of the employees was extremely favorable and above the average in the Republic of Montenegro**, taking into account that employees with university qualifications, skilled and highly-skilled workers of professions related to electric power prevailed.

Reduction of the number of employees in EPCG to the present level was achieved first of all through the following measures:

- Natural drain of workers,
- Employment of new staff only when necessary and then, as a rule, they were employed on the limited-time basis, according to the decision of the Executive Director,
- Filling of the vacant positions by horizontal moving of the employees within certain organizational part and from one part to another,
- Through buying-up of the work positions,
- Termination of employment because of non possessing the valid diplomas.

According to the decision of the Board of Directors which defined the buying-up of the positions in the amount, the employment was terminated for 123 employees. This measure seems to be particularly appropriate and necessary in the interim period before the final implementation of the social program and in order to continue with its implementation in the forthcoming period the Board of Director needs to reach a new decision defining a new amount to be paid for the buy-up.

38 employees realized their right to retire during this year.

In the period from January 1st, 2008 to December 31st, 2008, 10 employees died.

4 employees were dismissed and 3 employees left the Company by mutual consent.

Also, employment of three employees was terminated due to a complete loss of work abilities.

In line with the law, employment of 21 employees was terminated due to non-possession of a valid diploma of professional qualifications, i.e. because of non-credible diploma of qualifications.

14. FINANCIAL OPERATIONS

14.1. Introductory Remarks

At the beginning of this overview of indicators related to the financial operation of EPCG A.D. Niksic for the year 2008, conditions and specific circumstances in the reporting operation period should be outlined:

- Methodology of financial reporting for 2008 was aligned with the “Regulation on Electricity Tariffs” as issued by the Energy Regulatory Agency.
- The revenues from the Aluminium Plant Podgorica (KAP), due to a change in aluminium price on the Exchange, are lower than realization from 2007,
- Regulated coal price in 2008 was 25.65 € per ton (ie.. 2.7847 €/GJ) for the guaranteed calorific value of 9,211 kJ/kg
- On the basis of the imported electricity price the expenses realized in 2008 amounted to 85,065,866 EUR.

- In the period January-December 2008, on the basis with relations with EPS, Electric Power Company of Montenegro realized negative consolidated balance of 5,456,045 €.
- The liabilities towards the local self-governments significantly burdened the business operations of the Electric Power Company of Montenegro.

14.2. Financial Statements

In period from January - December 2008, the Electric Power Company of Montenegro, Joint Stock Company Nikšić - (EPCG) realized the **total revenue** in the amount of **EUR 273,804,305** and the **total expenses** in the amount of **EUR 291,077,921**. On the basis of calculated profit tax, there was further decrease in operating result by **EUR 334,079**. With regard to the plan for 2008, the realized total revenues are higher by 6.62 % and expenses by 9.55%. Compared to realization from 2007, the total revenue is higher by 4.65% and expenses by 8.00%.

During the reporting period the EPCG realized **loss** in the amount of **EUR 17,607,696**, which is **EUR 9,731,221 higher** than the realization from the previous year, i.e. **EUR 8,940,722** than the plan.

Analytical study of the trends and impacts of the individual revenues and expenses on the operating result for the period January-December 2008 and their comparison with the data from the Plan and the realized results in 2007 is given in the overview of the Income Statement.

Description	2008 Realized	2008 Planned	2007 Realized	Structure Year 2008	Rate Realiz./planned	Rate Realiz. 2008 /Realiz. 2007
REVENUES						
1. Revenues from sale of electricity	248,268,632	239,868,561	229,381,843	90.67%	103.50%	108.23%
2. Other operating revenues	17,166,819	15,940,056	16,966,221	6.27%	107.70%	101.18%
3. Financial revenues	1,497,832	108,534	1,127,863	0.55%	1380.06%	132.80%
4. Other revenues	6,871,021	1,118,800	14,153,984	2.51%	614.14%	48.54%
Total Revenues	273,804,305	257,035,951	261,629,910	100.00%	106.52%	104.65%
EXPENSES						
1. Costs of electricity purchase from import	85,065,866	71,333,756	91,559,830	29.22%	119.25%	92.91%
2. Costs of fuel for electricity generation	40,643,748	39,383,385	21,814,767	13.96%	103.20%	186.31%
3. Annual costs of salaries and other personal earnings	55,325,010	54,461,899	48,508,345	19.01%	101.58%	114.05%
4. Costs of spare parts and material	8,580,471	6,762,888	7,324,446	2.95%	126.88%	117.15%
5. Costs of third persons services	11,910,968	13,868,223	12,742,241	4.09%	85.89%	93.48%
6. Costs of bank current accounts, telecommunication, post, insurance costs ...	4,138,826	4,470,784	4,285,279	1.42%	92.57%	96.58%
7. Costs of property tax and costs of compulsory contributions (compensations)	15,888,545	11,199,847	17,676,922	5.46%	141.86%	89.88%
8. Other costs	10,434,048	13,639,425	12,538,759	3.58%	76.50%	83.21%
9. Other costs (Provisions from previous years)	11,933,529	10,392,500	8,300,570	4.10%	114.83%	143.77%
10. Depreciation costs	35,932,345	37,982,415	36,331,144	12.34%	94.60%	98.90%
11. Financial expenses	1,581,698	1,698,517	2,325,909	0.54%	93.12%	68.00%
12. Extraordinary expenses	3,009,686	399,284	1,108,532	1.03%	753.77%	271.50%

13. Environmental protection costs	1,177,136	110,000	-	0.40%	1070.12%	#DIV/0!
14. Electricity purchase from EPS (consolidated balance)	5,456,045	-	4,989,643	1.87%	#DIV/0!	109.35%
Total Expenses	291,077,921	265,702,925	269,506,385	100.00%	109.55%	108.00%
III. OPERATING LOSS	(17,273,617)	(8,666,974)	(7,876,475)			
IV. PROFIT TAX	(334,079)					
V. NET LOSS	(17,607,696)	(8,666,974)	(7,876,475)			

14.3. Revenues

The total revenue of the “Elektroprivreda Crne Gore” for the period January-December 2008 was realized in the amount of **EUR 273,804,305**.

The structure of total revenue consists of revenues from sale of electricity, other operating revenues, financial revenues and other revenues.

14.3.1. Revenues from Sale of Electricity

Revenues from the sale of electricity in the reporting period amounted to EUR 248,268,632. Revenues from the sale of electricity to direct and distributive consumers amounted to EUR 240,205,320, and the additional revenues from electricity export amounted to EUR 8,063,313.

Analytical presentation of revenues from electricity sale to direct and distributive consumers is given in the table below.

CONSUMER	Total year 2008		
	Consumption (MWh)	Invoiced in Euros	€/kWh
KAP	1,187,127	43,785,278	36.88
Steel Works Niksic	228,177	14,359,153	62.93
Railways of Montenegro	21,615	1,407,630	65.12
TOTAL DIRECT CONSUMERS	1,436,919	59,552,061	41.44
35kV	75,719	5,100,386	67.36
10kV	222,030	18,092,669	81.49
Total 0.4kV	1,578,658	156,985,134	99.44
0.4 kV 1 st level	122,871	19,932,496	162.22
0.4 kV 2 nd level	241,346	44,179,877	183.06
0.4 kV Households	1,177,996	87,818,627	74.55
0.4 kV Public Lighting	36,446	5,054,134	138.68
Correction	13,419	475,069	
TOTAL DISTRIBUTIVE CONSUMERS	1,889,826	180,653,259	95.59
TOTAL	3,326,745	240,205,320	72.20

The realized average sale price of electricity in the period January - December 2008 amounted to 72.20 €/MWh. The realized selling price for the direct consumers amounted to 41.44 €/MWh, whereas for the distributive consumers it amounted to 95.59 €/MWh.

14.3.2. Other Operating Revenues

In the period January – December 2008, other realized operating revenues amounted to 17,166,819 € and they were higher by 200,599 € or 118 % in comparison with the revenues realized in the same period of 2007, i.e. they were higher by 1,226,763 € or 7.70% in comparison with the planned revenues. The structure of other operating revenues is presented in the table below.

Revenues	2008 Realization
Revenues from Transmission services	4,043,724
Revenues based on illegal consumption	3,748,952
Revenues from sale of services	3,565,280
Revenues from housing construction contributions	2,562,380
Other operating revenues	1,068,370
Revenues from premiums, subsidies, endowments, compensations etc.	898,393
Revenues from consents	553,258
Revenues from new connections	336,659
Revenues from activation or costs of goods and services for the company's needs	333,937
Revenues from rents	28,181
Revenues from activation or costs of goods for the company's needs	27,686
Total	17,166,819

14.3.3. Financial Revenues

Financial revenues were realized in this period in the amount of 1,497,832 €. The dominant part of this category of revenues comprises the exchange gains, which were realized in the observed period at the level of 967,233 €.

14.3.4. Other Revenues

They were realized in the amount of 6,871,021 € and they make 2.51% of the total revenues. In relation to the plan, the other revenues are higher by 5,752,221 €, whereas in relation to the realization for the same period of the previous year, they are lower by 7.282,963 €.

14.4. Expenses

In the period January-December 2008, the total expenses were realized in the amount of **291,077,921 €** and they were 25,374,996 € or 9.55% higher than the planned expenses, i.e. 21,571,536 € or 8.00% higher than the expenditures realized in 2007.

14.4.1. Costs of Electricity Purchase from Import

Costs of electricity purchase from import for the period January - December 2008, amounted to 85,065,866 €. This category of expenditures made 29.22% of total expenses and it is 13,732,109 € or 19.25% higher than the plan, whereas in relation to the realization for the same period of the previous year it is lower by 6,493,964 € or 7.09%.

In order to have a better picture about the import and to calculate average import price, data related to the quantities and the values of imported electricity are given per month in the Table below.

Month	Quantity MWh	Value €	€/MWh
January	126,140	10,129,825	80.31
February	95,298	7,841,088	82.28
March	85,679	7,078,283	82.61
April	36,561	2,793,762	76.41
May	90,449	6,210,227	68.66
June	58,192	4,531,938	77.88
July	104,874	8,010,630	76.38
August	112,098	9,853,032	87.90
September	71,349	6,007,368	84.20
October	146,401	12,425,903	84.88
November	52,011	4,082,378	78.49
December	72,508	6,101,432	84.15
Total	1,051,561	85,065,866	80.89

Average price of electricity from import in relation to 2007 is higher by 23.71%.

14.4.2. Costs of fuel for electricity generation

These costs were realized in the amount of 40,643,748 € and they were by 1,260,363 € or 3.20% higher than the plan, i.e. by 18,828,981 € or 86.31% higher than the realization for the same period of 2007.

Costs of coal were realized in the amount of 39,257,996 € and they were higher by 1,552,491 € or 4.12% in relation to the plan, while in relation to the realization from the previous year they were higher by 18,719,415 € or 91.14%.

Costs of fuel oil were realized in the amount of 1,210,221 € and in relation to the plan they are lower by 19.32% and in relation to the realization from the previous year they are higher by 4.69%.

Costs of chemicals were realized in the amount of 175,532 € and they are lower by 1.32% in relation to the plan and are by 46.05% higher in relation to the realization from the previous year.

14.4.3. Annual costs of salaries and other personal earnings

Annual costs of salaries and other personal earnings were realized in the amount of 55,325,010 € and it is by 863,111 € or 1.58% higher than the plan, i.e. by 6,816,665 € or 14.05% higher than the realization for the same period in 2007 and these costs comprise:

- Gross salaries,
- Other personal earnings.

The salaries and other personal earnings participate with 18.00 % in the total expenses.

Gross Salaries (Net Salaries, Taxes and Contributions)

For gross salaries in the subject period the amount of 46,282,678 € was earmarked. In relation to the plan, the gross salaries were higher by 0.04% or 20,506€, and in relation to gross salaries realization in the previous year they were higher by 11.55% or 4,791,506 €. During 2008 regular control of salaries was implemented through monitoring of the overtime work hours.

Net salaries amounted to 24,878,527 € and the contributions and taxes to the salaries amounted to 21,404,150 €. The average realized monthly net salary per employee, for the period January – December 2008 amounted to 578.54 €. The average monthly net salaries per Functional and Organizational units are given in the Table below:

Part of Joint Stock Company	Average Net Salary
FU Generation	619.37
FU Transmission	604.85
FU Distribution	544.51
FU Supply	552.52
OU Head Office of the Company	662.34
OU Elektrogradnja	541.06

Structure of the gross salaries is made of: net salaries in the amount of 22,847,398 €, compensations for net salaries in the amount of 2,031,129 €, costs of taxes and compensations in the amount of 5,790,704 €, contributions and compensations for the salaries in the amount of 7,974,842 €, costs of contributions that are charged to the employer 6,323,732 €, super-tax in the amount of 771,704 €, contributions to the Chamber of Commerce in the amount of 138,866 €, contributions to the trade union of the Republic of Montenegro in the amount of 170,325 €, contributions to the trade union of the EPCG in the amount of 119,973 € and other contribution expenses 114,004 €.

Calculation and payment of salaries and other personal earnings and compensations in the Company was performed monthly, during the current month for the previous month and in accordance with the provisions of the Individual Collective Agreement and Rulebook of Job Classification of the Electric Power Company of Montenegro.

Costs of Other Personal Earnings and Compensations

Costs of other personal earnings and compensations amounted to 9,042,333 € and they are 10.28% or 842,604 € higher than the planned amount and 28.86% or 2,025,159 € higher than the costs realized in 2007.

Increased costs of salaries and other personal earnings compared to the plan were primarily a result of higher costs of buy-up of work positions compared to planned costs. Positive effects from decrease in the number of employees may be expected in the future period.

14.4.4. Costs of spare parts and material

Costs of spare parts and material were realized in the amount of 8,580,471 € and they comprise:

- costs of spare parts and maintenance material and
- other spare parts and material.

These expenses were higher in relation to the plan by 1,817,582 € or 26.88% and in relation to the realization from the previous year it is higher by 1,256,025 € or 17.15%.

Costs of spare parts and maintenance material

In the period January - December 2008, according to the bookkeeping data, the amount of 7,917,722 € was earmarked for the costs of spare parts and maintenance material. These costs were higher by 2,073,695 € or 35.48 % in relation to the plan and in comparison with the same period of the previous year, these costs are higher by 1,390,801 € or 21.31%.

An overview of the costs of spare parts and maintenance material, per organizational units of the Company is presented in the Table below.

No.	Part of the Company	Spare Parts and Maintenance Material	Structure %
1	FU Generation	1,737,420	21.94%
2	FU Transmission	608,200	7.68%
3	FU Distribution	5,042,853	63.69%
4	FU Supply	45,261	0.57%
5	OU Head Office of the Company	125,577	1.59%
6	OU Elektrogradnja	358,412	4.53%
	TOTAL	7,917,722	100.00%

Costs of other spare parts and materials

In the period January - December 2008, these costs were realized in the amount of 662,748 € and they were lower by 134,776 € or 16.90 % in relation to the realization from the same period of 2007, i.e. they were lower by 256,113 € or 27.87% in relation to the plan. The dominant part of these costs was the costs of office material which were realized during the reporting period in the amount of 354,603 €.

14.4.5. Costs of third party services

Costs of third party services were realized in the amount of 11,910,968 € and they comprise:

- Costs of maintenance services and
- Costs of other services.

These costs were lower by 1,957,255 € or 14.11% in relation to the plan and in comparison with the realization from the previous year, they were lower by 831,273 € or 6.52%.

Costs of maintenance services

These costs were realized in the amount of 7,671,988 € and they were lower by 230,556 € or 2.92% from the realization of these costs in 2007, i.e. they were lower by 232,655 € or 2.94% in relation to the plan.

Detailed overview of these costs is given in the below Table.

No.	Part of the Company	Costs of	Structure
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		maintenance services	%
1	FU Generation	3,020,716	39.37%
2	FU Transmission	732,638	9.55%
3	FU Distribution	3,042,122	39.65%
4	FU Supply	30,764	0.40%
5	OU Head Office of the Company	121,013	1.58%
6	OU Elektrogradnja	724,734	9.45%
	Total	7,671,988	100.00%

Costs of other services

These costs were realized during the reporting period in the amount of 4,238,980 € and they were lower by 600,717 € or 12.41% in relation to the realization of these costs for the same period of 2007, i.e. they were lower by 1,724,600 € or 28.92% in relation to the plan.

14.4.6. Costs of current bank services, telecommunication services, post services, insurance services and services of the licenses holders (licensees)

These costs were realized in the amount of 4,138,826 € and they were lower by 331,957 € or 7.43% in relation to the plan, i.e. they were lower by 146,452 € or 3.42% in relation to the realization of these costs from 2007. The most important item within these costs are the costs of insurance premium, which amounted to 1,745,103 € in 2008.

14.4.7. Costs of property taxes and compulsory contributions (compensations)

In the period January - December 2008 these costs were realized in the amount of 15,888,545 € and they were lower by 1,788,377 € or 10.12% in relation to the realization for the same period of 2007, i.e. they were higher by 4,688,698 € or 41.86% in relation to the plan. These costs comprise: local public utilities dues, compensations for the water utilization, costs of licenses issuing, taxes for the construction land and facilities, customs duties, property taxes, etc. It should be pointed out that the increase of these costs in comparison with the year 2006 resulted from the increase of the liabilities of the Electric Power Company towards the local self-governments.

14.4.8. Other costs

The other costs in 2008 amounted to 10,434,048 and they were lower by 3,205,378 € or 23.50% in relation to the plan, i.e. they were lower by 2,104,712 € or 16.79% in relation to the same period of 2007.

14.4.9. Other costs (Provisions from previous years)

These costs were realized in the amount of 11,933,529 € and they were higher by 1,541,029 € or 14.83% in relation to the plan, i.e. they were higher by 3,632,960 € or 43.77% in comparison with the realization from 2007.

For receivables from customers for electricity delivered, invoiced by 30.06.2008 (other consumption, households, direct electricity consumers) correction of value was made, for outstanding receivables as on 31.03.2009, and for receivables from illegal consumption as on 31.12.2008.

14.4.10. Depreciation Costs

The depreciation costs in this period were calculated on the basis of the value and the defined lifetime of the fixed assets in the amount of 35,932,345 €.

The depreciation costs make 12.34% of the total expenses.

14.4.11. Financial Expenses

In the period January - December 2008 the financial expenses were realized in the amount of 1,581,698 €. The dominant part of these expenses comprises the costs of interests which were realized in the amount of 1,378,964 € in the reporting period.

14.4.12. Extraordinary expenses

These expenses were realized in the amount of 3,009,686 € and they make 1.03% of the total expenses.

14.4.13. Environmental protection costs

These expenses were realized in the amount of 1,177,136 € and they make 0.40% of the total expenses.

Municipality Pljevlja made a temporary decision regarding protection and enhancement of environment considering chemical pollutants of different kinds. In the year 2009 the amount of 1,102,135.95 Eur from these liabilities was collected through debt enforcement. The above mentioned decision expired on 18.02.2009 (Official Gazette No. 12).

14.4.14. Purchases of electricity - EPS (Consolidated Balance)

In the period January-December 2008 the Electric Power Company of Montenegro on the basis of exchange of electric power generated in HPP Piva with the EPS, realized revenues amounting to 37,051,685 € and realized expenses amounting to 42,507,729 € and therefore the consolidated balance is negative and amounts to 5,456,045 €.

14.5. Profit tax

On the basis of calculated deferred tax additional loss of 334,079 € was realized.

ANNEX

FU GENERATION

The total expenses of the FU Generation were realized in the amount of €93,451,060, as follows:

	Head Office of Generation	HPP Perucica	HPP Piva	TPP Pljevlja	Total
Realization	618,125	20,329,923	12,676,690	59,826,322	93,451,060
Planned	597,898	14,969,270	11,878,386	57,120,225	84,565,779
Level	103.38%	135.81%	106.72%	104.74%	110.51%

In relation to the plan the expenses are higher by 10.51% or €8,885,281, whereas in relation to the realization from the previous year the expenses are higher by 35.07% or €24,261,578.

The increase in expenses relative to the realization from the previous year and to the plan primarily resulted from additional liabilities of HPP Perućica and HPP Piva towards local governments, as well as due to increased consumption of coal compared to the plan.

Table. Comparative Analysis of Expenses

Costs	1-12 2008 Realized	1-12 2008 Planned	1-12 2007 Realized	Realiz./Plan. Level	Realiz.2007/Realiz.2006 Level
1. Costs of electric power purchase from import	0	0	0	#DIV/0!	#DIV/0!
2. Costs of fuel for electric power generation	40,642,949	39,383,385	21,814,767	103.20%	186.31%
3. Annual costs of salaries and other personal earnings	15,082,976	14,512,213	13,169,790	103.93%	114.53%
4. Costs of spare parts and material	1,960,489	1,491,000	1,485,398	131.49%	131.98%
5. Costs of third persons services	4,031,954	3,772,300	4,183,472	106.88%	96.38%
6. Costs of current bank, telecommunication, post, insurance services ...	648,641	602,143	785,722	107.72%	82.55%
7. Costs of property taxes and compulsory contributions (compensations)	11,077,548	4,881,330	7,795,470	226.94%	142.10%
8. Other costs	2,008,928	4,154,408	3,862,479	48.36%	52.01%
9. Other costs (Provisions from previous years)	25,143	0	13,239	#DIV/0!	189.92%
10. Depreciation costs	14,193,264	15,000,000	14,397,977	94.62%	98.58%
11. Financial expenses	1,063,458	531,000	1,106,040	200.27%	96.15%
12. Extraordinary expenses	1,538,573	128,000	575,129	1202.01%	267.52%
13. Environment protection expenses	1,177,136	110,000	0	1070.12%	#DIV/0!
14. Purchase of el. power - EPS (consolidated balance)	0	0	0	#DIV/0!	#DIV/0!
Total	93,451,060	84,565,779	69,189,482	110.51%	135.07%

FU TRANSMISSION

The total expenses of the FU Transmission were realized in the amount of €15,298,701 and they were by 9.93% or €1,685,855 lower than the planned amount, i.e. they were by 4.76% or €764,177 lower than the expenses realized in the previous year.

Deviations from the planned levels were primarily a result of ICT mechanism.

Table. Comparative Analysis of Expenses

Costs	1-12 2008 Realized	1-12 2008 Planned	1-12 2007 Realized	Realiz./Plan. Level	Realiz.2007/Realiz.2006 Level
1. Costs of electric power purchase from import	0	0	0	#DIV/0!	#DIV/0!
2. Costs of fuel for electric power generation	0	0	0	#DIV/0!	#DIV/0!
3. Annual costs of salaries and other personal earnings	5,246,317	5,452,885	4,598,655	96.21%	114.08%
4. Costs of spare parts and material	653,915	703,000	611,163	93.02%	107.00%
5. Costs of third persons services	1,469,318	2,720,249	2,080,440	54.01%	70.63%
6. Costs of current bank, telecommunication, post, insurance services ...	469,820	529,897	600,579	88.66%	78.23%
7. Costs of property taxes and compulsory contributions (compensations)	678,768	819,763	794,651	82.80%	85.42%
8. Other costs	619,525	676,592	1,084,810	91.57%	57.11%
9. Other costs (Provisions from previous years)	0	0	33,517	#DIV/0!	0.00%
10. Depreciation costs	5,598,977	5,604,870	5,587,423	99.89%	100.21%
11. Financial expenses	411,103	335,017	607,962	122.71%	67.62%
12. Extraordinary expenses	150,959	142,284	63,678	106.10%	237.06%
13. Environment protection expenses	0	0	0	#DIV/0!	#DIV/0!
14. Purchase of el. power - EPS (consolidated balance)	0	0	0	#DIV/0!	#DIV/0!
Total 1	15,298,701	16,984,556	16,062,879	90.07%	95.24%

FU DISTRIBUTION

In the period January-December 2008 the total expenses realized at the level of FU Distribution amounted to €58,654,464.

They were by 2.52% or €1,518.207 lower in comparison with the planned expenses and by 0.63% or €371,030 lower in comparison with the expenses realized in the previous year.

Table. Comparative Analysis of Expenses

Costs	1-12 2008 Realized	1-12 2008 Planned	1-12 2007 Realized	Realiz./Plan. Level	Realiz.2007/Realiz.2006 Level
1. Costs of electric power purchase from import	0	0	0	#DIV/0!	#DIV/0!
2. Costs of fuel for electric power generation	799	0	0	#DIV/0!	#DIV/0!
3. Annual costs of salaries and other personal earnings	24,944,369	25,220,574	21,613,363	98.90%	115.41%
4. Costs of spare parts and material	5,258,671	3,853,081	4,514,717	136.48%	116.48%
5. Costs of third persons services	4,500,700	4,921,991	4,530,815	91.44%	99.34%
6. Costs of current bank, telecommunication, post, insurance services ...	1,345,341	1,287,423	1,130,480	104.50%	119.01%
7. Costs of property taxes and compulsory contributions (compensations)	2,844,653	4,582,431	7,727,797	62.08%	36.81%
8. Other costs	2,957,379	3,068,850	3,142,728	96.37%	94.10%
9. Other costs (Provisions from previous years)	544,821	392,500	147,517	138.81%	369.33%
10. Depreciation costs	15,545,811	16,684,322	15,756,768	93.18%	98.66%
11. Financial expenses	60,635	32,500	46,484	186.57%	130.44%
12. Extraordinary expenses	651,286	129,000	414,825	504.87%	157.00%
13. Environment protection expenses	0	0	0	#DIV/0!	#DIV/0!
14. Purchase of el. power - EPS (consolidated balance)	0	0	0	#DIV/0!	#DIV/0!
Total	58,654,464	60,172,672	59,025,495	97.48%	99.37%

FU SUPPLY

The total expenses of FU Supply in the period January - December 2008 amounted to €103,019,632, and they were higher than the planned expenses by 13.34% or €12,123,245, i.e. they were lower than the realization from the year 2007 by 3.24% or €3,448,117.

In the year 2008 import of electricity was significantly higher than the planned, thus the planned expenses were exceeded on that basis.

Table. Comparative Analysis of Expenses

Costs	1-12 2008 Realized	1-12 2008 Planned	1-12 2007 Realized	Realiz./Plan. Level	Realiz.2007/Realiz.2006 Level
1. Costs of electric power purchase from import	85,065,866	71,333,756	91,559,830	119.25%	92.91%
2. Costs of fuel for electric power generation	0	0	0	#DIV/0!	#DIV/0!
3. Annual costs of salaries and other personal earnings	3,202,205	3,033,998	2,947,253	105.54%	108.65%
4. Costs of spare parts and material	99,360	130,500	98,608	76.14%	100.76%
5. Costs of third persons services	315,639	612,733	507,224	51.51%	62.23%
6. Costs of current bank, telecommunication, post, insurance services ...	1,377,128	1,729,916	1,315,193	79.61%	104.71%
7. Costs of property taxes and compulsory contributions (compensations)	1,212,721	861,473	1,253,585	140.77%	96.74%
8. Other costs	263,443	2,702,288	561,542	9.75%	46.91%
9. Other costs (Provisions from previous years)	11,359,368	10,000,000	8,108,489	113.59%	140.09%
10. Depreciation costs	118,025	191,723	109,505	61.56%	107.78%
11. Financial expenses	1,392	300,000	5,263	0.46%	26.46%
12. Extraordinary expenses	4,485	0	1,259	#DIV/0!	356.37%
13. Environment protection expenses	0	0	0	#DIV/0!	#DIV/0!
14. Purchase of el. power - EPS (consolidated balance)	0	0	0	#DIV/0!	#DIV/0!
Total	103,019,632	90,896,387	106,467,749	113.34%	96.76%

OU HEAD OFFICE OF THE COMPANY

In the period January-December 2008, the total expenses of OU Head Office of the Company amounted to €16,463,092. They were higher than the expenses realized in the previous year by 7.23% or €1,109,339, i.e. they were higher than the planned expenses by 74.21% or €7,012,737.

It should be mentioned that the planned expenses from the reporting period were exceeded in the first place because of negative consolidated balance with the Electric Power Company of Serbia (EPS).

Table. Comparative Analysis of Expenses

Costs	1-12 2008 Realized	1-12 2008 Planned	1-12 2007 Realized	Realiz./Plan. Level	Realiz.2007/Realiz.2006 Level
1. Costs of electric power purchase from import	0	0	0	#DIV/0!	#DIV/0!
2. Costs of fuel for electric power generation	0	0	0	#DIV/0!	#DIV/0!
3. Annual costs of salaries and other personal earnings	4,497,329	3,957,235	4,167,227	113.65%	107.92%
4. Costs of spare parts and material	219,827	193,008	230,295	113.90%	95.45%
5. Costs of third persons services	672,971	1,324,450	892,558	50.81%	75.40%
6. Costs of current bank, telecommunication, post, insurance services ...	257,526	282,815	412,529	91.06%	62.43%
7. Costs of property taxes and compulsory contributions (compensations)	60,909	51,800	102,349	117.58%	59.51%
8. Other costs	4,289,012	2,791,047	3,632,878	153.67%	118.06%
9. Other costs (Provisions from previous years)	0	0	-2,193	#DIV/0!	0.00%
10. Depreciation costs	311,595	350,000	328,009	89.03%	95.00%
11. Financial expenses	45,110	500,000	560,161	9.02%	8.05%
12. Extraordinary expenses	652,769	0	40,297	#DIV/0!	1619.90%
13. Environment protection expenses	0	0	0	#DIV/0!	#DIV/0!
14. Purchase of el. power - EPS (consolidated balance)	5,456,045	0	4,989,643	#DIV/0!	109.35%
Total 1	16,463,092	9,450,355	15,353,754	174.21%	107.23%

OU ELEKTROGRADNJA

The total expenses of OU Elektrogradnja amounted to €4,190,972 and they were higher than the planned amount by 15.35% or €557,796, i.e. they were higher than the expenses realization in the previous year by 23.01% or €783,944.

Table. Comparative Analysis of Expenses

Costs	1-12 2008 Realized	1-12 2008 Planned	1-12 2007 Realized	Realiz./Plan. Level	Realiz.2007/Realiz.2006 Level
1. Costs of electric power purchase from import	0	0	0	#DIV/0!	#DIV/0!
2. Costs of fuel for electric power generation	0	0	0	#DIV/0!	#DIV/0!
3. Annual costs of salaries and other personal earnings	2,351,814	2,284,995	2,012,057	102.92%	116.89%
4. Costs of spare parts and material	388,208	392,300	384,265	98.96%	101.03%
5. Costs of third persons services	920,386	516,501	547,732	178.20%	168.04%
6. Costs of current bank, telecommunication, post, insurance services ...	40,371	38,590	40,776	104.62%	99.01%
7. Costs of property taxes and compulsory contributions (compensations)	13,947	3,050	3,071	457.27%	454.16%
8. Other costs	295,762	246,240	254,321	120.11%	116.29%
9. Other costs (Provisions from previous years)	4,197	0	0	#DIV/0!	#DIV/0!
10. Depreciation costs	164,673	151,500	151,461	108.70%	108.72%
11. Financial expenses	0	0	0	#DIV/0!	#DIV/0!
12. Extraordinary expenses	11,614	0	13,344	#DIV/0!	87.03%
13. Environment protection expenses	0	0	0	#DIV/0!	#DIV/0!
14. Purchase of el. power - EPS (consolidated balance)	0	0	0	#DIV/0!	#DIV/0!
Total	4,190,972	3,633,176	3,407,027	115.35%	123.01%