

**MONTENEGRIN ELECTRIC ENTERPRISE - NIKSIC
(EPCG)**

**REPORT
ON BUSINESS OPERATIONS OF
MONTENEGRIN ELECTRIC ENTERPRISE - NIKSIC
FOR YEAR 2006**

NIKSIC, May 2007

1. JOINT STOCK COMPANY IN GENERAL

Montenegrin Electric Enterprise (EPCG), Joint Stock Company (J.S.C.) – Niksic, is the only company in Montenegro dealing with electric power generation, transmission, distribution and supply and it manages the facilities for electric power generation with the total installed capacity of 867 MW, out of which 657 MW (76%) is in Hydro Power Plants (HPPs) and 210 MW (24%) is in Thermal Power Plant (TPP) “Pljevlja”.

The EPCG has transformed into the “Joint Stock Company” on February 12th, 1999. The latest registration of the EPCG as the “Joint Stock Company” was performed at the Central Register of the Commercial Court in Podgorica on 30.07.2006 under registration number 4 – 0000330/011.

The equity capital of the Company is 905,380,271.93 EUR and it has been divided into 103,955,573 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 Joint Stock Company is in Niksic, 2, Vuka Karadzica Street.

In the period January-December 2006 the total EPCG shares turnover amounted to 20,117,361 EUR. The minimum share price was reached on 27.02.2006 amounting to 2.5000 EUR, while the maximum price was reached on 31.08.2006 amounting to 5.9627 EUR.

Source: NEX Montenegro Stock Exchange

2. ORGANIZATIONAL STRUCTURE OF THE COMPANY

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

- FE Electric Power Generation;
- FE Electric Power Transmission;
- FE Electric Power Distribution;
- FE Electric Power Supply;
- OE Directorate of EPCG;
- OE Elektrogradnja;

The Functional Entity “Electric Power Generation” is organized as follows:

- Directorate of Electric Power Generation;
- HPP “Perucica”;
- HPP “Piva”;
- TPP “Pljevlja”.

The Functional Entity “Electric Power Transmission” is organized as follows:

- Directorate of Electric Power Transmission;
- National Dispatcher Centre;
- Electric Power Transmission;
- Market Operator.

The Functional Entity “Distribution” is organized as follows:

- Directorate of Electric Power Distribution;
- 16 Electric Power Distribution Companies with the Head Offices in Bar, Budva, Bijelo Polje, Berane, Kolasin, Kotor, Mojkovac, Niksic, Pljevlja, Rozaje, Tivat, Podgorica, Ulcinj, Herceg Novi, Zabljak and Cetinje.

The Functional Entity “Electric Power Supply” is organized as follows:

- Sector of Electric Power Trade;
- Sector of Payment Collections;
- Sector of Economic Issues;
- Sector of Legal, Personnel and Common Issues;
- Department of ICT;
- Centre for Contacts with Customers;
- 16 Electric Power Supply Companies with the Head Offices in Bar, Budva, Bijelo Polje, Berane, Kolasin, Kotor, Mojkovac, Niksic, Pljevlja, Rozaje, Tivat, Podgorica, Ulcinj, Herceg Novi, Zabljak and Cetinje

The Organizational Entity “Directorate of Joint Stock Company” is organized as follows:

- Sector of Economic Issues;
- Sector of Legal, Personnel and Common Issues;
- Sector of Corporate Planning;
- Sector of Development and Engineering;
- Centre for Information-Communication Technologies;
- Centre for Quality System and Environment Protection;
- Centre for Public Relations;
- Social Standard;
- Department of Commercial Issues.

The Organizational Entity “Elektrogradnja” is organized as follows:

- Directorate of Elektrogradnja;
- Sector of Technical Issues.

3. REALIZATION OF POWER BALANCE

3.1. Introductory Notes

Electric power balance in 2006 was realized in very complex conditions, which characterize the current state of Montenegrin electric power system as well. The most important such conditions are as follows:

- Growing electric power deficit;
- Desistance of Iron Works Niksic from its own import;
- Difficult conditions of procurement and provision of funds for electric power import, the prices of which are constantly rising;

- The Regulatory Agency did not adopt new tariffs in 2006 as it had been planned;
- Lack of funds for required capital investment maintenance and regular maintenance of electric power structures;
- Inadequate coal supply by the Coal Mine, both in terms of quantity and rate, which put TPP Pljevlja out of operation four times in the course of 2006;
- Efforts on reducing grid losses and initiation of significant activities in the fourth quarter of 2006;
- Extremely unfavourable hydrological conditions in the second half of the year, which resulted in increased import in comparison with the planned one, additionally burdening the electric power industry due to high market prices of electric power.

However, having in mind all the above-mentioned circumstances, it can be concluded that during the year 2006, a high degree of safety of operation of the electric power system in Montenegro was accomplished, i.e. electricity supply to consumers was satisfactory.

3.2 Power Balance Realization Indicators

3.2.1 Generation

Total net electric power generation of the power plants, realized in Montenegro in the year 2006 amounted to 2818.4 GWh, which is 72.4 GWh or 2.6% more than the planned, i.e. 70.6 GWh or 2.6% more than the realization in the previous year.

HPP “Perucica” generated 835.8 GWh which is 54.2 GWh or 6.1% less than the planned, i.e. 180.4 GWh or 17.8% less than the generation in the year 2005. Generation below the plan is a result of unfavorable hydrologic conditions in the second half of the year.

HPP “Piva” generated 888.5 GWh, which is 126.5 GWh or 16.6% more than the planned and 70.2 GWh or 8.6% more than the generation realized in previous year. There were no overflows at the HPP “Piva” in 2006.

Small-scale Hydro Power Plants generated 18.7 GWh, which is 2.3 GWh or 10.9% less in relation to the plan, and in relation to the realization from the previous year, it is less by 4.3 GWh or 18.6 %.

TPP “Pljevlja” generated 1075.4 GWh which is 2.4 GWh or 0.2% more in relation to the plan and 185 GWh, i.e. 20.8% more in relation to the realization from the previous year. The generation would have been higher if the Coal Mine, by its coal supplies, had well followed-up the level of readiness of the plant for operation. Due to shortage in coal supply, the TPP was turned-off on four occasions (in the second and seventh month and twice in the twelfth month).

The highest monthly generation was established in January (396 GWh), and the lowest in October (144.1 GWh).

Monthly Net Power Generation (MWh)

3.2.2 Consumption

Gross electricity consumption in Montenegro, in the year 2006, amounted to 4684.7 GWh, which in relation to the plan is 58.7 GWh or 1.3% more and in relation to the realization from the previous year it is 141.3 GWh or 3.1% higher.

The characteristics of realized consumption are as follows:

- The highest monthly consumption on the transmission network was achieved in January (468.2 GWh), and the lowest in September (343.3 GWh);
- The highest daily consumption was achieved on 26th January (16557 MWh) and the lowest was achieved on 23rd April (10767 MWh)
- The highest average peak load was registered on 26th January in the 19th hour (779 MW), and the lowest load was registered on 10th July in the 17th hour (334 MW), excluding the days when lower loads were realized due to disruptions in the EPS.

Consumption structure:

- The Aluminum Plant realized a consumption of 1926.7 GWh, which is 30.7 GWh or 1.6% more than the planned, i.e. 29.7 GWh or 1.6% more than realization in the previous year. The Electric Power Industry of Montenegro supplied 1221.1 GWh of electric power to this consumer from its own sources and the Aluminum Plant imported 705.6 GWh itself;
- Iron Works realized a consumption of 191.2 GWh, which is 5.2 GWh or 2.8% more than it was planned and also 52.7 GWh or 38.1% more than the previous year.
- Railways of Montenegro realized a consumption of 24.4 GWh, which is 0.6 GWh or 2.3% less than the planned, but 1.6 GWh or 7.2 % more than the consumption realized in previous year.
- Gross distributive consumption amounted to 2385.8 GWh, which is 49.8 GWh or 2.1% more than the planned and it is 76 GWh or 3.3% higher than the consumption realized in previous year.
- Net distributive consumption amounted to 1740.1 GWh, which is 78.8 GWh or 4.3% less than the planned consumption and it is 30.0 GWh or 1.8% higher than the consumption realized in previous year.

In the structure of the consumption, gross consumption and net consumption, the participation of individual consumers is as follows:

	Participation in Gross Consumption;	Participation in Net Consumption
Aluminium Plant ("KAP")	41.13%	42.55%
Iron and Steel Works	4.08%	4.22%
Railways of Montenegro	0.52%	0.54%

Direct consumers	45.73%	47.31%
Gross distribution	50.93%	52.69%
Transmission losses	3.34%	

3.2.3 Purchase and Delivery of Electric Power

In 2006 the total amount of 2932.1 GWh was procured from other electric power systems, which is 267.1 GWh or around 10% higher than the plan and in relation to the previous year it is 56.3 GWh or 2% more.

For the purpose of covering the shortage in the balance, the EPCG, in accordance with the determined measures for realization of the Balance, after inviting an annual tender, concluded the relevant contracts.

In order to cover the balance deficiencies that could not be anticipated in the annual balance, additional quantities of electric power were contracted and imported in certain periods of the year.

The total of 1204.3 GWh was procured from the Electric Power of Serbia based on the Agreement on LTBTC (Long-Term Business-Technical Cooperation).

Deviations from the electricity exchange program (compensation) and island supplying of the areas which are connected with 110 kV interconnective long distance power lines, which are not in parallel operation (in the purchasing direction), amounted to 21.6 GWh in 2006.

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 1706.2 GWh, which is 106.2 GWh or 6.6% more than the import planned by the Balance. The import in the year 2006 was higher than the import in the previous year by 119.1 GWh, i.e. 7.6%.

The EPCG imported 1000.6 GWh, out of which 967.6 was purchased and 33 GWh was procured on the basis of the exchange.

Contracts:

- EFT – 622 GWh (597.6 GWh on the basis of the Annual Contract and 24.4 GWh on the basis of additional contracts);
- Energy Holding – Romania – 188.4 GWh (on the basis of the Annual Contract);
- EZPADA – Czech Republic – 58.2 GWh;
- HSE – Slovenia – 40.8 GWh;
- ATEL Energy – Germany – 11.7 GWh;
- PPC – Germany – 0.2 GWh;
- Istrabenz Gorenje – Slovenia – 6 GWh;
- EPS – Serbia – 40.3 GWh.

Exchange:

- KESH – Albania – 4.1 GWh;
- ERS – the Republic of Srpska – 11.8 GWh;

- EFT – 11.1 GWh;
- EPS – Serbia – 0.2 GWh;
- UNMIK-KEK – 3 GWh;
- Exchange – dealers – 2.8 GWh.

In 2006 “KAP” imported 705.6 GWh, while Iron Works Niksic desisted from its own import although the Balance envisaged import of 62 GWh for its own needs. As a result, purchase of electric power for the needs of the Iron Works (which exceeded the plan by almost 3%) subsequently became EPCG obligation.

3.2.4 Delivery of Electric Power

During the year 2006 the electric power system of Montenegro delivered to other systems the total amount of 1066 GWh, which is 281 GWh or 35.8% more than the planned, i.e. 17.3 GWh or 1.6 % less in comparison to the previous year.

The Electric Power Industry of Serbia (“EPS”) received 991.1 GWh which is 229.1 GWh or 30.1% more than the plan, i.e. 33.4 GWh or 3.3% less in comparison with the previous year. Out of this quantity:

- On the basis of the Article 3 of the Contract on LTBTC (generation of the HPP “Pivalj) 888.5 GWh and
- On the basis of the Article 18 of the same Contract 102.6 GWh.

Total power debt of the Electric Power Industry of Serbia towards the EPCG on the basis of emergency deliveries was reduced to the exchange, with ratio 1:1 in electricity higher rate = HR and at the end of the year 2006 it amounted to 1.2 GWh.

On the basis of the monthly adjustments of the electricity meters, the debt towards the Electric Power Grid (EMS) amounted to 3.4 GWh.

Deviations from the electricity exchange programs, compensations and island operation (Bileca and Cajnice) in direction of supplying to the Electric Power System (EPS), were realized with 1.5 GWh.

The EPCG delivered to the systems abroad the total amount of 73.2 GWh through various forms of exchange, out of which the following quantities were delivered to:

- EFT – 7.3 GWh;
- ERS – the Republic of Srpska – 16.8 GWh;
- B I H – 0.3 GWh;
- UNMIK –KEK 1.5 GWh;
- KESH – Albania – 3.7 GWh;
- Sale – at the stock-exchange 26.4 GWh;
- Exchange – dealers – 2.4 GWh;
- Electric Power Industry of Serbia – 14.9 GWh.

At the end of the year, the remaining debt of the EPCG towards abroad amounted to 41.1 GWh, out of which the debt to ERS (The Republic of Srpska) was 21.3 GWh, to KESH (Albania) 1.1 GWh, to ESM (Macedonia) 4.3 GWh, to EFT 0.2 GWh, to UNMIK-KEK 11.9 GWh, to HEP 1.5 GWh and to other systems 0.8 GWh.

3.2.5 Transit

In the year 2006 a transit in the amount of 504.5 GWh was registered. From 01.01.2005 Montenegro started calculation according to the CBT. On the basis of this, 1.2 million EUR was invoiced to the EPCG, as a result of high import (1700 GWh).

3.2.6 Losses

a) Transmission Network

Electric power losses in the transmission network of the EPCG in the year 2006 amounted to 156.6 GWh, which is 26.4 GWh or 14.4% less than the planned and 18.8 GWh, i.e. 10.7% less than the realization in 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 5720.6 GWh. The electric power losses in the transmission network have a downward tendency, i.e. in 2004 they amounted to 3.6%, in 2005 they amounted to 3.2% and in 2006 they amounted to 2.7%. This is mainly the result of reconnecting into the I and the II UCTE zones, construction of the 110 kV long distance power line Podgorica – Cetinje, which influenced on better voltage circumstances in the system, reduced power generation of HPP “Perucica” in 2006 and a larger scope of power transmission by 400 kV long distance power lines.

b) Distributive Network

Total losses realized in the distributive network in 2006 amounted to 693.3 GWh, which is 29.06 % of the total consumption of distributive consumers.

3.2.5.1 Activities Carried out for the Purpose of Reducing Distribution Losses

At the end of 2005 losses realized in the EPCG distributive network amounted to around 1/3 of procured electric power (around 33%), which is a very large amount in comparison with the losses of electric power distribution companies in the surrounding developed countries. It is an undeniable fact that electric power losses, i.e. non-technical – commercial losses are one of the gravest problems of the entire EPCG system.

Having faced enormous losses of electric power, EPCG Management established a work group familiar with the problem, system and its functioning, as well as with the manners in which new, improved system solutions could be applied. In cooperation with the Executive Director of EPCG and Director of FE Distribution, the Work Group prepared a Design that set an ambitious but accomplishable objective – reducing losses down to acceptable level, i.e. 12% level in the period of 5 years.

A marketing campaign under the slogan “We all consume but who pays” was set in motion on the official date of the commencement of loss reduction campaign, i.e. on 3rd October 2006. In this marketing campaign that successfully followed changes in

the parts of strategy phases defined in advance (softer period, counting down etc.) the following channels of communication with the public were used: TV and radio clips, advertisements in printed media, billboards, website and e-mail address, advertising material. The average response of the public to the marketing campaign was assessed by the Work Group to be very good. The fact that during the countdown (last 15 day of voluntary registration) around 13,000 people used the opportunity to register their measurement places confirms the substantial share of intensive marketing in this campaign.

In the period between 04.10.2006 and 30.11.2006, 15,658 complaints of consumers related to technical deficiencies at their measurement places were received and they were as follows:

- 6086 – electricity meters out of function (mechanical damage, failure to register consumed electric power, damaged state seals);
- 2477 – illegal connections of consumers;
- 3152 – damaged and/or removed distribution seals;
- 3202 – defects of integrating meters;
- 741 – other.

In the above period authorized employees of electric power distribution companies registered 4,663 illegally connected consumers.

In accordance with deficiency priorities determined based on consumers' complaints, in the period between 04.10.2006 and 31.12.2006 specialized teams of electric power distribution companies made 8,695 detailed controls of measurement places and prepared reports on them.

Based on the measurement place controls, specialized teams of electric power distribution companies resolved 3,187 technical deficiencies (mostly involving replacement of damaged electric power meters) and their technical services prepared 5,058 reports on the technical state of illegally connected consumers.

3.2.7 Water Storages

A detailed overview of water storage state on the first day of the month is given in the table below.

Month	HPP PERUCICA		HPP PIVA	
	Realized (GWh)	Planned (GWh)	Realized (GWh)	Planned (GWh)
January	159.4	150	285.8	151
February	141.4	103	201.9	97
March	131.9	63	101.9	49
April	166	125	156.2	54
May	171.2	158	296	140
June	145.2	176	301.5	258
July	136.4	175	301.5	304
August	107.7	122	240.4	292
September	101.4	117	233.7	267
October	82.5	105	247.8	234
November	43.2	77	217.6	179
December	30.9	110	151.7	191

In the course of the previous year, hydrological circumstances in Montenegro were favorable in the first half of the year and extremely unfavourable in its second half. At the beginning of the year in the water storages of HPP “Perucica” were 159 GWh, which is 9 GWh more than the planned. At the end of the year the water storages were brought to the level of 31 GWh, which is 71.91% less than the planned quantity. The average annual water inflow was 23.6 m³/s.

The HPP “Piva” operated at the average monthly elevations, from 643.46 m asl in December up to 674.65 m asl in May and achieved an average annual elevation of 660.30 m asl. The average annual water inflow was 53 m³/s. The water storage of the HPP Piva was close to the maximum in the majority of the year. At the end of the year the water storage was brought to 152 GWh.

Water Storages of HPP “Perucica”		Water Storages of HPP “Piva”	
Realized	Planned	Realized	Planned
Inflow in HPP “Perucica” (m ³ /sec)		Inflow in HPP “Piva” (m ³ /sec)	
Realized	Planned	Realized	Planned

3.2.8 Coal and Fuel Oil

In order to achieve the generation of 1075.3 GWh, which is 0.2% higher than the planned, TPP Pljevlja consumed totally 1,381,389 tons of coal, which means that an average specific consumption of 1.285 kg/kWh was achieved and in the year 2005 it was 1.35 kg/kWh.

The coal consumption in the year 2006 in comparison with the year 2005 was 15% higher and the power generation was 20.8% higher, which indicates that the quality of coal was better and that during 2005 the power plant was engaged in a more economical manner, i.e. it operated with maximum power output in longer periods of time.

Coal deposit at the beginning of the year was 10 kilotons and at the end of the year it was 3.4 kilotons or 6.8% of the planned quantity.

Supply of the TPP with the coal was not in accordance with the plan, neither in respect of the quantity, nor according to the schedule of supplies and the quality, therefore the TPP had to be outaged four times due to lack of coal and in some periods of the year the TPP had to operate with variable power output, which did not allow optimizing the system operation, both in respect of the power generation and in economic respect.

The fuel oil consumption in the last year amounted to 1372 tons, which was 47% less than the planned. Such fuel oil consumption is a result of a small number of stoppages of the TPP in comparison with the balanced values.

4. OPERATIONAL READINESS AND MAINTENANCE OF FACILITIES

Besides very exerted operation of the EPS of Montenegro and with the fact that certain areas in the Republic are supplied from single 110 kV long distance power line (Ulcinj, Andrijevac with Plav and Gusinje and Vilusi) and the coastal area with the capacities which do not fulfill the N-1 criteria; it can be concluded that there were no longer disruptions in supply of the consumers with the electricity at the point of transmission. In 2006, Niksic-Bileca long distance power line of 110 kV was put in parallel operation, resulting in increased security of power supply to Vilus.

Taken as a whole, the operational readiness of the electric power facilities and plants in the year 2006, with regard to the insufficient capacities and unilateral supply of some areas, was favorable. The TPP Pljevlja manifested particularly favorable operational readiness, as well as the most of the power transmission facilities and this was proved by the very high availability and readiness coefficients accomplished.

4.1 Power Generation Facilities

Individually, the power plants realized the following availability coefficients:

- HPP Perucica **72%**
- HPP Piva **89%**
- TPP Pljevlja **83%**

4.1.1 HPP “Perucica”

In 2006 HPP “Perucica” generated **835,812,993 kWh** of electric power, which is **93.9%** of the planned amount (890,000,000 kWh). The achieved scope of power generation in 2006 is a good result, taking into account plant availability coefficient of **72%**.

The following factors had effect on the power generation in HPP “Perucica”:

- Unavailability of Unit A1 in the period 01.01-01.10.2006;
- Unavailability of Unit A2 in the period 03.04-01.10.2006;
- Scope of executed works on the revitalization of Units A1 and A2 that exceeded the planned one;
- Simultaneous plant operation and execution of works in the plant, as well as power plant overhaul and execution of revitalization and modernization works.

All units of HPP “Perucica” are ready for electric power generation. Units A1 and A2 were in test run until 01.11.2006 and in trial run in the period between 06.11.2006 and 06.02.2007. Competent authorities of the Republic are expected to issue Operation License for Units A1 and A2 by the end of the trial run.

Works executed on other units should, with normal maintenance, enable their smooth operation.

In accordance with the Electric Power Generation Balance of the Republic of Montenegro and agreement signed with NDC, overhauling of the facilities and plants of the HPP “Perucica” was performed in the period from 01.06.2006 to 01.10.2006.

In the period 29.05-01.07, valve chambers of the water conveyance system (Krupac, Slano, Vrtac, Inlet structure) were overhauled.

The majority of works were executed during the total power plant stoppage in the period 04.08-04.09.2006.

Within the last overhaul, works on the filter layer restoration, i.e. backfilling at a large number of locations along Zeta I and Zeta II canals were executed.

4B turbine pits were grouted by injecting cement mixture.

Regular annual overhaul of electrical equipment was carried out in accordance with the overhaul plan, engaging plant staff and authorized specialists for the required tests.

In the period 03.04-01.10.2006, Units 1 and 2 were revitalized and modern Technical Information System was installed.

Within nine groups of mechanical works, overhaul of mechanical equipment for Units 3-7 was completed in each of the groups.

Extensive works on all SHPPs were envisaged and executed in accordance with the Plan of Regular Annual Overhaul of SHPPs for the Year 2006.

The executed works, with regular maintenance, should guarantee normal operation without major problems in the forthcoming period.

4.1.2 HPP “Piva”

In 2006 HPP “Piva” generated **888,543 MWh** of electric power. Its units were in operation 3248 hours on the average, respectively, with the average rotation speed of 323 for each of the units. In the course of the year, regular annual overhaul of all three units was carried out.

An overview of unit stoppages is given in the table below.

- Planned stoppage (overhaul and minor overhaul of plants) and
- Unplanned stoppages (caused by equipment failures).

Stoppage Duration [h.min]	Fault	Overhaul	Minor Overhaul	Total
Unit A1	246.45	626.10	49.05	922.00

Unit A2	148.15	851.55	43.10	1043.20
Unit A3	194.40	687.20	52.50	934.50
Total	589.40	2165.25	145.15	2900.10

Unplanned stoppages were caused by the following:

- Damage on the insulation of brush carriages – damage on slip rings;
- Water leakage from generator cooler;
- Water leakage from the branches of turbine inlet butterfly valve, replacement of seals;
- Lack of impedance protection.

In the period envisaged for the minor overhaul of the plant the following activities were carried out in addition to regular controls:

- Tests of protections;
- Tests of vibrations;
- Tests of voltage regulators.

The annual overhaul was commenced with on 14.08.2006 by overhauling Unit A2 and it was carried out in the period 14.08-11.09.2006. Unit A3 was overhauled in the period 12.09- 03.10.2006, while Unit A1 was overhauled in the period 06.10-02.11.2006.

During the overhaul of the last unit (A1), approval for the total plant stoppage was obtained and the stoppage lasted from 23.10. 2006 to 31.10.2006.

Apart from detailed examination of the plant (equipment control, cleaning, measurements, tests, various adjustments), replacement of defective parts, repair of registered faults, the following significant works were executed within the overhaul and total plant stoppage in 2006:

- Installation of devices in the control system for cooling water pumps and dam drainage;
- Removal of hot spots in the plant;
- Maintenance of generator and transformer firefighting system;
- Overhaul of ionizing fire alarms and maintenance of firefighting plant;
- Rehabilitation of cavitation damages on turbines,
- Replacement of packings on the branches of turbine inlet butterfly valves;
- Manufacture and installation of devices for air pumping under turbine runners;
- Rehabilitation the left dam abutment by constructing a dam shoulder and rehabilitation of IG 678 gallery tunnel portal;
- Overhaul of instruments for seismic observations of the dam.

4.1.3 TPP “Pljevlja”

Operation of the TPP in 2006 was characterized by the following problems:

- Irregular coal deliveries and unplanned plant stoppages resulting in 674 stoppage hours, which is equivalent to the production loss of over 142 million kWh;

- Use of coal with high CaO contents, which in the conditions of uncompleted revitalization resulted in the deposition of clinker on heating batteries in the boiler;
- Sand in the filters for chemical treatment of water was not replaced, which to a large extent affected the efficiency of plant operation (turbine condenser and heat exchanger) and increased a risk of damage during equipment cleaning and consequently a risk of key equipment failure during the plant operation;
- Intensive deposition of clinker on the clinker pipeline walls due to the fact that the existing hydraulic transport of clinker and ash does not correspond to the quality of coal combusted in the boiler (increased CaO contents in the ash). This results in increased costs of clinker pipeline cleaning and limitation of the existing **excavator pump heads**.
- Delays in the execution of works on the dam appurtenant to “Maljevac” clinker and ash dump, which resulted in decreased dump capacity and jeopardized further operation of the TPP. Activities related to the design of a new dump are in progress, but they are not carried out at a required rate.

The basic indicators of plant operation efficiency are given in the table below.

Month	Service Factor	Capacities Utilization Factor	Reliability Factor	Power Generation Factor	Planned Stoppage-Overhaul Factor	Forced Stoppage Factor
Average in 2006	0.784	0.623	1.000	0.888	0.134	0.00
Average in 2005	0.653	0.549	0.996	0.841	0.196	0.004
Average in 2004	0.659	0.581	0.994	0.880	0.274	0.006
Average in 2003	0.742	0.661	0.981	0.892	0.22	0.02
Average in 2002	0.750	0.670	0.99	0.89	0.25	0.01

The following conclusions can be made from the table:

- **Service factor** (duration of operation in relation to the total hours in the observed period) of the TPP increased in comparison with the year 2005 and it amounts to 0.784;
- **Capacities utilization factor** (ratio between realized and potential power generation with the installed capacity in the observed period) is 0.623 and it shows increase in comparison with the average value of that indicator in 2005 (0.549);
- **Reliability factor** (duration of operation in relation to the total sum of operation and outage time duration) is 1.0, i.e. there were no unplanned outages;
- Power generation factor (capacity utilization in the realized operation time) is 0.888 and it also exceeds the same indicator for 2005;
- **Overhaul factor: 0.134;**
- **Forced outage factor: 0.**

Plant overhauls were carried out only to a reduced scale. Due to unfavourable electric power situation in the Republic, capital overhaul of the turbine was postponed, although the number of hours it had been in operation exceeded the number allowed by standards, at which point the turbine has to be opened for the purpose of establishing its state and performing tests.

The final phase of boiler revitalization was postponed again, which caused drawbacks and power generation and safety risks, including the supplied equipment decay in the open-air storage.

4.2 Transmission Facilities

Survey and overhauling of the electric transmission facilities and works related to regular and capital investment maintenance of the built-in equipment, as well as purchasing of the stand-by equipment and spare parts for these purposes in the period 01.01.2006-31.12.2006 were executed on larger scale. An overview of the planned and executed overhauls, surveys and examinations is given in the tables below.

4.2.1 Long-Distance Power Lines

Implementation of the plan of examinations, surveys and overhauls in the period 01.01.2006-31.12.2006 is presented in the table below.

	EXAMINATIONS planned/realized	SURVEYS planned/realized	OVERHAULS planned/realized
400 kV	6/7	0/0	2/1
220 kV	12/12	0/0	2/2
2x110 kV	4/4	0/0	0/0
110 kV	54/53	0/1	6/6
Total	56/55	0/1	10/9

Due to the fact that no-load state could not be provided, instead of the planned overhaul of 400 kV long-distance power line Ribarevina-Kosovo, the power line was examined and instead of examining 110 kV long-distance power line Podgorica **EVP** Trebjesica, the power line was surveyed due to registered defects.

4.2.2 Transformer Stations

Implementation of the plan of overhauls and surveys in 2006 is presented in the table below.

	SURVEYS planned/realized	OVERHAULS planned/realized
400 kV	1/1	1/0
220 kV	0/0	3/1
110 kV	5/8	7/2
35 kV	11/13	10/12

In the year 2006 the following equipment was installed:

- 15 new 110 kV circuit breakers of SFEL 11 type, manufactured by “Energoinvest”;
- 27 new 110 kV current transformers manufactured by “Energoinvest”.

Overhaul of 110 kV switchgear and control gear was implemented to a smaller scale, but larger number of surveys were carried out instead. Some works were conditioned by long outages of 110 kV long-distance power lines, which the current situation in EPS did not allow (for example, KAP 1, KAP 2, TS Mojkovac). Some of the planned

overhauls were desisted from due to the replacement of the existing circuit breakers with new ones, in accordance with the implementation of EIB loan.

The scale of implemented overhauls and surveys of 35 kV switchgear and control gear exceeded the planned scale.

4.2.3 Interventions

Interventions that demanded additional engagement of machinery and large number of staff included the following:

- Rehabilitation of failure consequences and replacement of 220 kV circuit breaker and CT in Perucica long-distance power line bay in 220/110/35 kV TS Podgorica 1;
- Rehabilitation of failure consequences and replacement of 110 kV circuit breaker pole and CT and VT in Budva 110 kV long-distance power line bay in 110/35 kV TS Tivat;
- Rehabilitation of failure consequences and replacement of 110 kV circuit breaker pole in Trebinje 110 kV long-distance power line bay in 110/35 kV TS Herceg Novi;
- Replacement of faulted 110 kV VT in 110 kV long-distance power line bay Podgorica 1 in 110/35 kV TS Bar;
- Replacement of faulted 110 kV VT in 110 kV long-distance power line bay Ribarevine in 110/35 kV TS Berane;
- Replacement of faulted 110 kV VT in 110 kV long-distance power line bay Trebjesica in 110/35 kV TS Berane;
- Replacement of faulted 110 kV VT in 110 kV long-distance power line bay Podgorica 2 in 110/35 kV TS Cetinje;
- Replacement of faulted 110 kV VT in T2 transformer bay in 110/35 kV TS Cetinje;
- Replacement of damaged 110 kV VT in Bileca long-distance power line bay in 110/35 kV TS Niksic;
- Revitalization T4 transformer insulation system, 110/35 kV, 63 MVA in 110/35 kV TS Niksic.

4.3 Distributive Facilities

Capital investment maintenance and regular maintenance at the distribution level in 2006 was far behind the plan.

After analyzing types and scopes of the executed works, it can be concluded that proportionally larger share was of the interventions than of the planned activities, which is logical in a situation of limited investments.

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

- Overhauls and rehabilitation of the long distance power lines of 35 and 10 kV after the injuries, the interventions such as replacement of particular poles or parts of the poles, replacement of the damaged strands, insulators, felling of trees for the route of long distance power 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 all transformers after injuries;
- Construction and 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.

According to physical indicators, effectuated investments of FE “Electric Power Distribution” in 2006 were: increase of transformer power in two 35/10 kV transformer stations, equipping of a cell in one 35/10 kV transformer station, construction of 29 pole transformer stations of 10/0.4 kV, 23 D transformer stations of 10/0.4 kV, construction i.e. reconstruction of 10 kV cable lines in the length of 23 km, 10 kV overhead lines in the length of 14 km, low-voltage network in the length of 78 km and installation of electricity meters financed from Norwegian donation and World Bank loan.

The above indicators clearly show that implementation of the Investment Plan for the Year 2006 was reduced down to the necessity level. After analysing the investment structure, it can be concluded that the major part of the investments was related to new structures of the secondary network. Revitalization of structures was implemented in the minimum scale.

These investments enabled maintenance of electric power supply to distributive consumers, but it was not sufficient for significant improvement of operational readiness.

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 exploitation conditions, during a period which exceeds operating lifetime of the equipment installed in the plants;
- Obsolete technical solutions and old equipment which do 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 long distance power line and 35/10 kV transformer station;
- Increase of electricity consumption, intensive building in certain areas without planning, which has not been accompanied with adequate development of the network;
- Insufficiently equipped teams having insufficient number of workers to be engaged on the regular maintenance, which need to be reinforced because of the condition in which these facilities are;
- 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).

To reduce these characteristics up to a certain degree, considerable investments are necessary, not only in the regular maintenance and the capital investment maintenance, but also in the new structures.

For the purpose of satisfying the needs of the most vulnerable areas from the aspect of electric power supply, a list of priorities was prepared in 2006 based on the set criteria. The most urgent projects were nominated for donations/loans; the procedure of loan approval for some projects is in its final stage (French Government loan).

5. DIRECTORATE OF THE JOINT-STOCK COMPANY – JOINT FUNCTIONS

5.1 Development Researches

The following main activities were carried out within the Sector of Development and Engineering – Department of Development Research in the period January-December 2006:

- Hydrological investigations for the purpose of SHPP construction in Montenegro (Project 1). The project is implemented based on Norwegian Government donations (from 2005) and it includes selection of locations, construction of hydrological stations, hydrological measurements at 15 locations and processing of measurement results. Construction of the stations was completed in June 2006 and a period of further measurements in the duration of 15 months is required. The contractor of these works is Hydrometeorological Institute of the Republic of Montenegro and control of the works is executed by the experts of this department.
- Hydrological investigations for the purpose of SHPP construction in Montenegro (Project 2). In July 2006, at the request of the Government of Montenegro, the Department prepared a Project Plan for the new donation for hydrological investigations at another 15 locations. The Project Plan was a constituent part of the documentation accompanying the application for donation, which is collected by the Government services. The donation was approved at the beginning of October 2006.
- Preparation of a Joint EPCG-Statkraft (Norway) Study. Based on the Memorandum of Understanding signed between EPCG and Statkraft, documents required for the preparation of the Joint Study were collected and translated by this Department. The Department experts took part in the organization and implementation of workshops in June in Niksic, as well as in subsequent meetings with Statkraft representatives held in July, August, October and December 2006.
- Participation in the work of the Montenegrin Government Committee related to the division of hydropower potential of the Trebisnjica hydropower system, as well as participation in the preparation of Report on Committee's Work.
- Cooperation with Hydrometeorological Institute of Montenegro related to the processing of spatial distribution of precipitation in Montenegrin watershed gravitating to Trebisnjica hydropower system.
- Analysis of hydrological data (series) related to HPP system on the Moraca river, HPP Kostanica, HPP Komarnica and Trebisnjica hydropower system for the purpose of realistic insight in the potential power generation in these power plants, within the study jointly prepared by EPCG and Statkraft.

- Analysis of the possibilities of reactivating the idea of the construction of SHPP Rosca.

5.2 Project Design Department

In 2006 the Project Design Department worked with certain parts of the Enterprise on the preparation of the following investment-technical documentation: detail designs, studies, technical solutions, tender documentation and provided other services within Department's scope of activities.

For the requirements of the Department for transmission and management and the Department for distribution, the projects for rehabilitation, reconstruction or construction of long distance power lines of 220 kV and 110 kV, overhead and cable lines of 35 kV and 10 kV, transformer stations of 110/35 kV, transformer stations of 35/10 kV, prefabricated concrete transformer stations of 10/0.4 kV, pole transformer stations of 10/0.4 kV, transformer stations of 10/0.4 kV, low voltage overhead and cable lines and public lighting, were prepared for all distribution companies.

For the requirements of rural electrification, the projects of low voltage networks were prepared.

5.3 Center for Integral Information System

The following activities were realized in the Center for information-communication technologies in the period January-December 2006:

- World Bank project – FMIS and Pilot Project;
- Development of a global network – reconfiguration of LANs and their connection into an integral computer network infrastructure by implementing MIPNET;
- Active support to the work of losses group – systemic and applicative;
- Development and implementation of applicative project for the needs of the Department of Operation and Maintenance of FE Distribution (implementation in Podgorica Electric Power Distribution Company and Niksic Electric Power Distribution Company);
- Active computer support to committees and work teams formed for special purposes and to all users at the Joint-Stock Company level;
- Maintenance of the entire hardware, system and applicative software of the economic-information system at the Joint-Stock Company level

5.4 Introduction and Improvement of the Quality System and Environment Protection

The Center for Quality System and Environment Protection performed its activities based on the experience and recommendations of EU member-states and in line with the Work Programme of the Quality Committee of the Government of the Republic of Montenegro and Business Policy of EPCG J.S.C.

The basic activities of the Quality System Center were the following:

- Providing trained staff for the quality system functions in the Centre, Functional Entities and Elektrogradnja;
- Permanent education of the Centre staff regarding the new standards and continued training of the staff of the Directorate, Functional Entities and “Elektrogradnja” in accordance with the requirements of ISO 9001 – improvement of the quality of the process of individual functions in EPCG and ISO 14001 – environment protection;
- Continuation of the preparation of professional quality documents in the Functional Entities and Elektrogradnja at their request and according to their priorities and regular provision of services related to document preparation;
- Completion of code records for all Functional Entities and Elektrogradnja;
- Control of data related to potential polluters within EPCG J.S.C. and cooperation with foreign expert consultants regarding environment protection issues;
- Following of new ISO standard requirements and training of the staff necessary for creating conditions for their implementation.

6. ELEKTROGRADNJA

“Elektrogradnja”, being a part of the Company “Montenegrin Electric Enterprise - 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 injuries, reconstructions, etc), for the requirements of the Company, as well as of the third persons.

In 2006 OE “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 metal mesh structure;
- Manufacture of reinforcing concrete anchors with the clamping rings, etc.

7. HUMAN RESOURCES POLICY

In the part of the human resources policy, as envisaged by the provisions of the Business Policy for 2006, the main point was put on rationalization of the manpower and its reduction to the optimum limits, in the context of total activities for as easy as possible transition from the phase of functional into the phase of legal separation of the integral and vertically integrated EPCG.

The present state of EPCG is as follows:

The total number of employees as of 31.12.2006 the was 3401, out of which 3224 were full-time (permanent) employees, 41 were limited-time employees, 84 were trainees and 52 employees working under the Contract of Temporary and Occasional Employment. A detailed overview is given in the table below.

No.	Part of Joint Stock Company	Permanent Employment	Limited-Time Employment	Trainees	Contract of Temporary and Occasional Employment	Total
1	Board of Directors	14	0	0		14
2	Executive Manager	11	0	0		11
3	OE Directorate of EPCG	192	1	17	0	210
4	Directorate of FE Electric Power Generation	22	0	2		24
5	HPP Perucica	322	4	8	2	336
6	HPP Piva	189	2	2	5	198
7	TPP Pljevlja	348	0	4		352
8	FE Electric Power Transmission	314	0	4		318
9	Directorate of FE Electric Power Distribution	126	1	5	0	132
10	Electric Power Distribution Company Bar	76	6	2		84
11	Electric Power Distribution Company Bijelo Polje	78	0	1		79
12	Electric Power Distribution Company Budva	58	0	0		58
13	Electric Power Distribution Company Zabljak	41	0	0		41
14	Electric Power Distribution Company Berane	97	1	5	12	115
15	Electric Power Distribution Company Kolasin	44	1	3	2	50
16	Electric Power Distribution Company Kotor	75	0	1		76
17	Electric Power Distribution Company Mojkovac	32	0	0	2	34
18	Electric Power Distribution Company Niksic	153	15	6	1	175
19	Electric Power Distribution Company Pljevlja	76	0	2	1	79
20	Electric Power Distribution Company Rozaje	44	1	0	0	45
21	Electric Power Distribution Company Tivat	39	0	1		40
22	Electric Power Distribution Company Podgorica	364	0	5	23	392
23	Electric Power Distribution Company Ulcinj	70	0	1		71
24	Electric Power Distribution Company Herceg Novi	67	0	1		68
25	Electric Power Distribution Company Cetinje	64	0	0		64
25	OE Elektrogradnja	127	5	3	1	136
27	FE Power Supply	181	4	11	3	199
OVERALL:		3224	41	84	52	3401

Chart: Structure of Employees

Permanent Employment Limited-Time Employment Trainees Contract of Temporary and Occasional Employment

It should be pointed out that in 2006, 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.

Human Resources Policy of EPCG was based on the following:

- Natural drain of workers,

- Employment of new staff only when necessary and then, as a rule, they were employed as the limited-time, according to the decision of the Executive Manager,
- 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 positions,
- Checking-up of the validity of diplomas.

According to the decision of the Board of Directors which defined the buying-up of the positions in the amount of 9,850.00 EUR each, in the cases when there was no special need for these positions in the working process, the employment was terminated with 73 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 decision defining a new buying-up amount.

21 employees realized their right to retire during 2006.

In 2006, 4 employees died and employment of three employees was terminated due to loss of work abilities.

In line with the law, employment of 23 employees was terminated due to possession of invalid i.e. not credible diploma of qualifications.

During 2006 a special attention was paid to the professional training of the employees, as well as to awarding the scholarships to pupils and students. Precisely, 92 pupils and students were awarded the scholarships and professional training of employees, particularly in the form of specializations and learning foreign languages, was organized per part.

Professional education and advanced training of the employees is regulated by the Rulebook on training, re-training and further education of the employees and it has been realized on the basis of its provisions, but when awarding scholarship, particular importance is attached to the success in previous education.

8. FINANCIAL OPERATIONS

8.1 Introductory Remarks

At the beginning of this overview of indicators related to the financial operation of EPCG J.S.C. Niksic for the year 2006, conditions and specific circumstances in the subject operation period should be outlined:

- Although the Electric Power Industry of Montenegro submitted in late 2005 a request to the Regulatory Agency for Energy for the approval of regulatory revenues, current tariffs have not been modified as yet.

- "KAP" tariff in 2006 remained unchanged and it amounted to 2.044 Euro cents per kWh.
- In the subject period, apart from regular payments of liabilities from the year 2006, KAP cleared its debt from the previous period as well.
- The contract with Pljevlja Coal Mine was not signed in 2006 either. The Coal Mine submits invoices for the price of 21.44 €/t, while EPCG is ready to accept the price of 17.15 €/t.
- Costs of capital investment and regular maintenance in 2006 were much lower than the planned ones, which is characteristic for the previous long period.

8.2 Financial Statements

In period from January - December 2006, the Montenegrin Electric Enterprise - Niksic realized the **total revenue** in the amount of **193,249,003 €** and the **total expenses** in the amount of **217,726,838 €**. With regard to the plan for 2006, the realized total revenue is higher by 4.02% and expenses by 5.05%. Compared with realization in 2005, the total revenue is higher by 13.24% and expenses by 9.04%.

During the observed period the EPCG realized **loss** in the amount of **24,477,835 €**, which is **4,543,053 € lower** than the loss in the previous year, i.e. **2,997,517 € higher** than the planned loss.

Analytic study of the trends and impacts of the individual revenues and expenses on the operating result for the period January-December 2006 and their comparison with the data from the Plan and the achieved results in 2005 is given in the review of the Income Statement.

Income Statement

No.	Item	2005 Realized	2006 Realized	2006 Planned	Realization Structure	Level	
						Col. (4/5)	Col. (4/3)
1	2	3	4	5	6	7	8
I	TOTAL REVENUES (A+B)	170,652,258	193,249,003	185,780,659	100.00%	104.02%	113.24%
A.	Operating Revenues	161,965,233	186,153,291	181,280,659	96.33%	102.69%	114.93%
1	Revenue from electricity sale	143,354,119	170,629,857	166,782,000	91.66%	102.31%	119.03%
2	Other operating revenues	15,845,157	12,159,271	11,502,151	6.53%	105.71%	76.74%
3	Revenue from sale of services ("Elektrogradnja")	2,765,957	3,364,162	2,996,508	1.81%	112.27%	121.63%
B.	Extraordinary non-operating revenues	8,518,130	6,044,343	4,500,000	3.13%	134.32%	70.96%
4	Financial revenues	168,895	1,051,370	0	0.54%		
II	TOTAL EXPENSES (C+D+E)	199,673,146	217,726,838	207,260,977	100.00%	105.05%	109.04%
C.	Operating expenses	178,904,162	199,083,948	198,933,003	91.44%	100.08%	111.28%
1	Costs of electricity purchase	31,186,670	43,170,246	38,637,558	21.68%	111.73%	138.43%
2	Costs of electricity purchase from EPS - other	125,928	-645,423		-0.32%	#DIV/0!	-512.53%
3	Costs of coal for TPP Pljevlja	20,572,603	23,743,189	24,867,500	11.93%	95.48%	115.41%
4	Costs of fuel oil for TPP Pljevlja	570,984	441,269	1,224,000	0.22%	36.05%	77.28%

5	Costs of chemicals for TPP Pljevlja	126,682	120,429	200,600	0.06%	60.03%	95.06%
6	Capital investment maintenance and regular maintenance costs	12,152,522	12,975,051	19,867,707	6.52%	65.31%	106.77%
7	Costs of other material and services	7,737,828	6,998,111	8,238,017	3.52%	84.95%	90.44%
8	Gross salaries	39,124,740	42,172,741	40,265,754	21.18%	104.74%	107.79%
9	Costs of other personal earnings and compensations	7,986,732	8,273,181	7,391,216	4.16%	111.93%	103.59%
10	Depreciation costs	36,783,386	36,756,382	37,096,625	18.46%	99.08%	99.93%
11	Insurance costs	2,473,154	2,379,600	2,143,308	1.20%	111.02%	96.22%
12	Taxes, customs duties and dues	8,140,121	10,619,093	12,171,171	5.33%	87.25%	130.45%
13	Costs of housing construction contributions	1,915,641	2,030,854	1,989,872	1.02%	102.06%	106.01%
14	Other non-material costs	8,567,310	9,079,480	4,791,675	4.56%	189.48%	105.98%
15	Costs from the previous years	1,439,861	969,744	48,000	0.49%	2020.30%	67.35%
D	Extraordinary non-operating expenses	18,437,010	26,048,702	6,374,880	11.96%	408.61%	141.28%
E	Financial expenses	2,331,974	-7,405,812	1,953,094	-3.40%	-379.18%	-317.58%
1	Interests for the loans	1,564,219	18,858,792	1,839,094		1025.44%	1205.64%
2	Other financial expenses	859	3,284	114,000		2.88%	382.31%
3	Exchange differentials – consolidated balance	766,896	-26,267,888	0		#DIV/0!	-3425.22%
III	PROFIT - LOSS (I-II)	-29,020,888	-24,477,835	-21,480,318		113.95%	84.35%

8.3 Revenues

The total revenue of the “Montenegrin Electric Enterprise - Niksic” for the period January-December 2006 was realized in the amount of **193.249,003 €**.

The structure of total revenue consists of operating revenues, financial revenues and non-operating and extraordinary revenues.

8.3.1 Operating Revenues

Operating revenues in the subject period amounted to **186,153,291 €** and represent 96.33% of the total revenues. They were 4,872,631 € or 2.69% higher in relation to the plan and in comparison with the year 2005, they were higher by 24,188,057 € or 14.93%.

Structure of the operating revenues is made of:

- Revenues from sale of electricity;
- Other operating revenues;
- Revenues from sale of services (“Elektrogradnja”).

8.3.1.1 Revenues from Sale of Electricity

Revenues from the sale of electricity in the subject period amounted to 170,629,857 €. Revenues from the sale of electricity to direct and distributive consumers amounted to 168,889,441 € and the additional revenues from electricity export amounted to 1,740,416 €.

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

CONSUMER	YEAR	Invoiced with	Average Price
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	Consumption (kWh)	Invoiced (€) Per Tariff Item	€/kWh	IMPORT	Import	with Import €/kWh
KAP	1,221,060,011	24,941,141	0.0204	39,536	24,980,676	0.0205
Iron Works Niksic	191,234,877	9,989,330	0.0522	2,912,310	12,901,639	0.0675
Railways of Montenegro	24,420,196	1,326,453	0.0543	314,922	1,641,375	0.0672
TOTAL DIRECT CONSUMERS	1,436,715,084	36,256,923	0.0252	3,266,768	39,523,691	0.0275
35kV	85,787,728	4,174,365	0.0487	939,185	5,113,550	0.0596
10kV	174,335,606	12,081,965	0.0693	2,747,385	14,829,350	0.0851
Total 0.4kV	1,424,049,812	88,925,720	0.0624	20,700,446	109,626,166	0.0770
0.4 kV 1 st level	101,039,437	12,219,520	0.1209	2,833,306	15,052,826	0.1490
0.4 kV 2 nd level	200,551,071	29,087,554	0.1450	6,819,703	35,907,257	0.1790
0.4 kV households	1,096,380,074	45,106,720	0.0411	10,448,998	55,555,719	0.0507
0.4 kV public lighting	26,079,230	2,511,925	0.0963	598,440	3,110,365	0.1193
Correction	8,315,602	-334,604	-0.0402	6,461	-203,314	-0.0244
TOTAL DISTRIBUTIVE CONSUMERS	1,692,488,748	104,847,446	0.0619	24,393,477	129,365,751	0.0764
OVERALL	3,129,203,832	141,104,369	0.0451	27,660,244	168,889,441	0.0540

The realized average selling price of electricity against the current tariff items amounted to 4.51 c€/kWh (without export), i.e. 5.40 c€/kWh with the increased import costs.

The selling price of electricity against the tariff items realized with the distributive consumers amounted to 6.19 c€/kWh and with the increased import costs it amounted to 7.64 c€/kWh. In relation to the previous comparative period, the realized average selling price, including additional payment for imported electricity, was 16.7% higher.

The value of sold electricity includes the amount of 27,660,244 € for imported electricity.

8.3.1.2 Other Operating Revenues

In the period January – December 2006, other realized operating revenues amounted to 12,159,271 € and they were lower by 3,685,886 € or 23.6% in comparison with the revenues realized in 2005, i.e. they were higher by 657,120 € or 5.71% in comparison with the planned revenues. The structure of other operating revenues is presented in the table below.

Revenues	2006 Realized
Revenues from housing construction contributions	2,197,622
Other revenues	2,082,170
Revenues from sale of services	1,656,503
Revenues from activation or costs of goods and services for joint stock company needs	1,653,649
Revenues based on unauthorized consumption	1,528,887
Revenues from consents	1,446,139
Revenues from premiums, subsidies, endowments, compensations etc.	679,444
Revenues from previous years	430,863

Revenues from activation or costs of goods for joint stock company needs	258,219
Revenues from abolishing long-term provisions to the debit of expenses	126,855
Revenues from new connections	79,700
Revenues from rents	19,222
Total	12,159,271

8.3.1.3 Revenues from Sale of Services ("Elektrogradnja")

These revenues were realized in the total amount of 3,364,162 € and they make 1.81% of the operating revenues. These revenues were 21.63% higher than the comparative revenues from the previous year and 12.27% higher in relation to the plan.

8.3.2 Non-Operating and Extraordinary Revenues

The non-operating and extraordinary revenues were realized in this period in the amount of 6,044,343 € and they made 3.13% of the total revenues. These revenues were related to the following:

Revenues	2006 Realized
Revenues based on provisions from buyers from previous years	4,810,582.5
Other non-operating and extraordinary revenues	572,816.0
Revenues from collection of damages	450,857.8
Revenues from participation in tenders	74,789.4
Revenues from provisions of advance payment	56,077.4
Surplus	52,015.9
Profit from sale of material	23,674.0
Profit from sale of fixed assets and non-material investments	3,400.0
Revenues from decrease of liabilities (new account)	129.8
Total	6,044,342.9

8.3.3 Financial Revenues

In the period January – December 2006, financial revenues amounted to 1,051,370 € and they made 0.54% of the total revenues. These revenues were related to: revenues from interests (884,116 €), other financial revenues (116,254 €) and financial revenues from connected legal entities (1,000 €). It should be pointed out that a part of the financial revenues related to exchange differences was consolidated and it was entered in the expenses side of the Income Statement.

8.4 Expenditures

In the period January-December 2006, the total expenses were realized in the amount of **217.726,838 €** and they were 10,465,861 € or 5.05% higher than the planned expenditures and 18,053,692 € or 9.04% higher than the expenditures in 2005.

8.4.1 Operating Expenses

The operating expenses were realized in the amount of **199,083,948 €**. In relation to the plan these expenses were higher by 150,949 € or 0.08% and in relation to the expenses realized in 2005 they were higher by 20,179,786 € or 11.28%. A significant increase of operating expenses in comparison with the year 2005 resulted to a large extent from the increase of the following costs: costs of imported electric power increased by 11.2 million €, costs of coal increased by 3.2 million €, gross salaries increased by 3 million €, local public utilities dues increased by 2.9 million €. It should be pointed out that the increase of gross salaries in comparison with the previous year resulted from differences in salaries in the period January-June 2005 due to application of new Collective Agreement and Rulebook of Job Classification, which were paid out in 2006.

Within these expenses the most significant costs were as follows:

Costs of Electricity Purchase from Import

Costs of electricity purchase from import in 2006 amounted to 43,170,246 €, out of which the contracted import amounted to 43,143,066 €, while the amount of 27,179 € represents the electricity taken-over from the Republic of Srpska for feeding of the transformer area at the Power Distribution Company Nikšić at the Golija mountain. The costs of import of electricity made 21.68% of total expenses.

In order to present import and calculation of average import price in realistic manner, data about quantities and the value of imported electricity are given per month in the table below.

Month	Quantity MWh	Value €	c€/MWh
January	79,224	3,321,291.98	41.92
February	105,704	4,468,561.00	42.27
March	53,214	2,309,908.60	43.41
April	30,345	1,212,652.50	39.96
May	10,880	415,616.00	38.20
June	51,930	2,191,622.40	42.20
July	97,866	4,045,373.58	41.34
August	111,663	4,417,970.00	39.57
September	78,969	3,243,664.32	41.08
October	105,686	4,544,003.89	43.00
November	113,024	6,180,874.60	54.69
December	129,082	6,791,527.60	52.61
TOTAL	967,587	43,143,066.47	44.59

Consolidated Balance of the Electric Power Industry of Serbia

In the period January-December 2006 the Electric Power Industry of Montenegro on the basis of exchange of electric power generated in HPP Piva with the Electric Power Industry of Serbia, realized revenues amounted to 27,460,480 € and realized

expenses amounted to 26,815,057 € and therefore the consolidated balance is positive and amounts to 645,423 €.

Costs of Coal, Fuel Oil and Chemicals for the TPP "Pljevlja"

Costs of coal, fuel oil and chemicals in this period were realized in the amount of 24,304,888 € they made 12.21% of the total expenses.

Costs of coal were realized in the amount of 23,743,189 € and they made 11.93% of operating expenses.

Costs of fuel oil were realized in the amount of 441,269 € and in relation to the plan they are lower by 63.95% and in relation to the realization from the previous year they are lower by 22.72%.

Costs of chemicals were realized in the amount of 120,429 €, they are lower by 39.97% than the planned amount and 4.94% in relation to the previous year.

Debtor/creditor relations between EPCG and the Coal Mine were not reconciled in 2006 either. The coal mine invoiced the supplied coal at the price of 21.4 €/t, while the EPCG accepted the coal price of 17.15 €/t (against which the calculation of the coal consumption for 2006 was made).

Capital Investment Maintenance Costs and Regular Maintenance Costs

The planned overhauling works, regular maintenance, surveys and examinations of the electric power plants were realized to the extent that ensured the minimum conditions for operating of the electric power system of Montenegro.

In the period January – December 2006, according to the bookkeeping data, the amount of 12.975,051 € was earmarked and used for the following purposes:

- Spare parts and maintenance material	5,829,891 €
- Services and maintenance	7,145,159 €
TOTAL:	12,975,051 €

Maintenance costs made 6.52% of operating expenses and in relation to the plan these costs are lower by 34.69% or 6,892,657 € and in relation to the previous year they are higher by 6.77% or 822,528 €.

The investments in the capital investment maintenance and the regular maintenance, in the previous longer period were much lower than the plan, which indicates the requirement of higher investments into the maintenance, in order to provide better reliability and stability of the electric power system functioning.

An overview of the capital investment maintenance costs and the regular maintenance costs, per type and organizational entities of the Joint Stock Company is presented in the table below.

No.	Part of Joint Stock Company	Material and Spare	Maintenance	Total Amount	Structure
-----	-----------------------------	--------------------	-------------	--------------	-----------

		Parts	Services		%
1	2	3	4	5 (3+4)	6
1	FE Electric Power Generation	1,083,242	2,039,726	3,122,967	24.07%
2	FE Electric Power Transmission	998,479	972,508	1,970,987	15.19%
3	FE Electric Power Distribution	3,454,087	3,389,357	6,843,445	52.74%
4	FE Power Supply	21,298	10,111	31,408	0.24%
5	OE Directorate of Joint Stock Company	24,197	191,286	215,483	1.66%
6	OE Elektrogradnja	248,589	542,171	790,761	6.09%
	OVERALL	5,829,891	7,145,159	12,975,051	100.00%

Costs of other Material and Services

Costs of other material and services amounted to 6,998,111 €, which is 15.5% lower than the planned amount and by 9.56% lower than the realization in 2005. The major part of these expenses consists of electric power consumptions for EPCG purposes, other costs of services, costs of petrol and oil for transport conveyances, telephone costs and PTT fees for bill submission service.

Gross Salaries (Net Salaries, Taxes and Contributions)

For gross salaries in the subject period the amount of 42,172,741 € was earmarked, which made 21.18% of the operating expenses. In relation to the plan gross salaries were higher by 4.74% or 1,906,987 € and in relation to gross salaries in the previous year they were higher by 7.79% or 3,048,001 €. Although regular control of salaries was implemented in 2006 as well, increase of gross salaries in comparison with the previous year primarily resulted from differences in salaries in the period January-June 2005 due to application of new Collective Agreement and Rulebook of Job Classification, which were paid out in 2006.

Net salaries amounted to 20,859,060 € and the contributions and taxes to the salaries amounted to 21,313,681 €. The average realized monthly net salary per employee, for the period January – December 2006 amounted to 513.57 €. The average monthly net salaries per functional and organizational entities are given in the table below.

Part of Joint Stock Company	Average Net Salary
FE Electric Power Generation	557.10
FE Electric Power Transmission	522.97
FE Electric Power Distribution	485.80
FE Procurements	505.20
OE Directorate of Joint Stock Company	540.90
OE Elektrogradnja	494.06

Structure of the gross salaries is made of: net salaries in the amount of 18,799,971 €, compensations for net salaries in the amount of 2,059,089 €, costs of taxes and compensations in the amount of 6,747,746 €, contributions and compensations for the salaries in the amount of 7,144,729 €, costs of contributions that are charged to

the employer 5,931,631 €, supertax in the amount of 915,426 €, contributions to the Chamber of Commerce in the amount of 107,528 €, contributions to the trade union in the amount of 228,710 €, contributions to solidarity fund in the amount of 161,021 € and other contribution expenses 76,890 €.

Calculation and payment of salaries and other personal earnings and compensations in the Joint Stock 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 Industry of Montenegro.

Costs of Other Personal Earnings and Compensations

Costs of other personal earnings and compensations amounted to 8,273,181 € and they are 3.59% higher than the planned amount and 11.93% higher than the costs realized in 2005.

Depreciation Costs

The depreciation costs in the subject period were calculated on the basis of the value and the defined lifetime of the fixed assets in the amount of 36,756,382 €.

The depreciation costs made 18.46% of the operating expenses and they were 0.92% lower than the planned costs i.e. 0.07% lower than the plan.

Insurance Costs

This category of expenses amounted to 2,379,600 €, which made 1.20% of the operating expenses and was 3.78% lower than the comparative realization in the previous year and 11.02% higher than the plan.

This category includes the following: insurance premiums in the amount of 2,281,734 €, insurance of employees in the amount of 76,714 € and insurance for the purpose of vehicle registration in the amount of 21,152 €.

Costs of Taxes, Customs Duties and Other Dues

These costs in the amount of 10,619,093 € participated in the operating expenses with 5.33% and they were realized in the scope exceeding the previous year's scope by 30.45% or 2,478,972 € i.e. they were lower by 12.75% or 1,552,078 € than the plan. They comprise: local public utilities dues, compensations for the water utilization, 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 2005 resulted from the increase of the liabilities of the Electric Power Industry based on the local public utilities dues.

Costs of Housing Construction Contributions

Costs of housing contribution (6% to the gross basis of calculation) amounted to 2,030,854 € and they made 1.02% of the operating expenses.

Other Non-Material Costs

These costs made 4.56% of the operating expenses and they were realized in the amount of 9,079,480 € and by 5.98% or 512,170 € they exceeded the values realized in the previous year. These costs comprised: costs of advertising and publicity, transit costs, computer software costs, membership fees etc.

Costs from the Previous Years

These costs were realized in the amount of 969,744 €, they made 0.49% of the operating expenses and they were 65% lower than the realization of the same costs in the previous year, while these costs were not anticipated in the plan for 2005.

8.4.2 Financial Expenses

Financial expenses were realized at the positive level due to consolidated balance of exchange differences and they amounted to 7,405,812 €.

Interests for the loans amounted to 18,858,792 €.

In the period January-December 2006, based on exchange differences, the Electric Power Industry of Montenegro realized revenues (positive exchange differences) in the amount of 26,414,051 € and expenses (negative exchange differences) in the amount of 146,162 €, resulting in positive consolidated balance and decrease of financial expenses by 26,267,888 €.

Having in mind the above statements, final defining of liabilities to Paris and London Club had a significant positive effect on the business operations of the Electric Power Industry of Montenegro, taking into account loan interests and consolidated balance of exchange differences.

Other financial expenses were low in the period January-December 2006 and they amounted to 3,284 €.

8.4.3 Non-Operating and Extraordinary Expenses

Non-operating and extraordinary expenses recognized in the Income Statement for this period amounted to 26,048,702 € and they made 10.22% of the total expenses. The major part of this category of expenses involved provisions of outstandings from the buyers from the previous years in the amount of 18,474,697 € (FE Power Supply 14,092,253 € and FE Electric Power Distribution 4,382,444 € for unauthorized consumption) and other non-operating and extraordinary costs in the amount of 6,468,840 €.

In accordance with the accountancy policies of EPCG, FE Power Supply made a correction of the value of outstandings from the buyers for supplied electric power at the distribution level, which were older than six months. Having in mind evident problems and long duration of litigations instigated due to authorized consumption,

in 2006 FE Electric Power Distribution Company made a comprehensive correction of the outstanding value resulting from unauthorized consumption.

Apart from that, other non-operating and extraordinary expenses increased considerably in comparison with the previous year due to the lost litigation against the Oil Industry of Serbia. This resulted in increased expenses in the amount of 5,749,762 €.

8.5 Operating Results

In the period 01.01-31.12.2006 the Electric Power Industry of Montenegro realized the following results:

Total revenues	193,249,003 €
Total expenses	217,726,838 €
Difference – loss	24,477,835 €

After partial, i.e. horizontal dividing of the Income Statement into the sub-balances, we get more realistic idea about the structure and the nature of the losses origine:

- operating revenues	186,153,291 €
- operating expenses	199,083,948 €
<i>operating loss</i>	<i>12,930,658 €</i>

- extraordinary revenues	6,044,343 €
- extraordinary expenses	26,048,702 €
<i>extraordinary loss</i>	<i>20,004,359 €</i>

- financial revenues	1,051,370 €
- financial expenses	-7,405,812 €
<i>financial profit</i>	<i>8,457,182 €</i>

8.6 Debtor-Creditor Relations and Credit Indebtedness

8.6.1 Long-Term Liabilities

Total long-term liabilities amounted to **145,909,599 €** and besides the long-term domestic and foreign credits, they also comprise the liabilities for the deferred taxes in the amount of 31,229,000 €.

Total debt against the domestic and foreign financial and commodity credits, as of 31.12.2006 amounted to 114,680,599 €, out of this amount the domestic debt amounted to 92,120,066 € and the foreign debt amounted to 22,560,533 €.

In 2006 an agreement with the Government of the Republic of Montenegro on debts related to Paris and London club of creditors was signed. After signing those agreements, the debt on this account increased in relation to the year 2005.

Apart from that, in the course of 2006 the amount of liabilities to London club was defined. The amount of liabilities was defined in accordance with the Government decision of 01.09.2005 which stipulated that the debt consisted of principals at the end of 1992 taken over by the Government of the Republic of Montenegro from Montenegrobanka. 2% interest rate was calculated since the date of liabilities taking over (26.03.2002).

	2006 State as of 31.12.2006	2005 State as of 31.12.2005
Foreign Debt		
HPP »Piva« - London club		23,290
TPP »Pljevlja – London club		45,861
TPP »Pljevlja« - Russian credit included in Paris club		3,900
Electric Power Transmission - London club		10,177
Electric Power Transmission - Paris club*		8,501
Electric Power Transmission – EIB*		566
Electric Power Transmission – IBRD*(NBY)		1,464
Directorate – IBRD*		2,167
TPP »Pljevlja« - Russian credit not included in Paris club	6,643	8,140
- HPP »Piva« - EIB	1,042	684
- Electric Power Transmission - EIB	6,031	5,511
- HPP »Perucica« - EIB	950	781
Electric power facilities – IBRD credit	2,849	1,141
- HPP »Perucica« electric power structures– KfW credit	5,045	998
Total foreign debt:	22,560	113,181
Domestic Debt		
Government of Montenegro – reprogram A		16,893
Government of Montenegro – other (Directorate)	6,929	1,484
Government of Montenegro - TPP »Pljevlja« - Russian credit included in Paris club*	3,154	
Government of Montenegro – Directorate – IBRD*	4,332	
Government of Montenegro – Electric Power Transmission – Paris club*,IBRD*,EIB*	16,663	
Government of Montenegro HPP »Piva« - London club	18,476	
Government of Montenegro TPP »Pljevlja – London club	34,577	
Government of Montenegro Electric Power Transmission - London club	7,647	
Jugobanka Belgrade (TPP Pljevlja)	126	194
Niksicka Banka (Directorate)	216	270
Total domestic debt:	92,120	18,841
Total:	114,680	133,081

8.6.2 Short-Term Liabilities

The total short-term liabilities as of 31.12.2006 amounted to **56,869,401 €** and they comprised the following:

- Liabilities resulting from business operations,
- Short-term credits,

- Other short-term liabilities.

Liabilities resulting from business operations amounted to 49,045,605 €.

In 000 EUR

	State as of 31.12.2006	State as of 31.12.2005
Suppliers	33,461	26,629
Liabilities for salaries	4,684	6,059
Received advance payments	4,240	5,431
Liabilities for taxes	3,467	1,299
Other	3,193	1,275
Total:	49,045	40,693

Short-term credits as of 31.12.2006 amounted to 6,789,959 € and they included short-term liabilities towards the following:

- Niksic Bank (The First Bank of Montenegro) – 2 million €;
- Montenegrin Commercial Bank – 2.5 million €;
- Government of the Republic of Montenegro – 1.7 million €;
- NLB Montenegro Bank – 0.5 million €.

Other short-term liabilities amounted to 1,033,837 €.

8.6.3 Long-Term Financial Investments

Long-term financial investments amounted to 5,031,874 € and they primarily comprised shares in the capital of other legal entities.

8.6.4 Working Assets

Working assets as of 31.12.2006 amounted to 74,799,309 € and they comprised the following:

- Principal and accounts with banks;
- Short-term financial investments;
- Outstandings and effected advance payments;
- Stocks.

The principal and accounts with banks as of 31.12.2006 amounted to 1,901,390 €, while short-term financial investments amounted to 21,800 €.

The total value of outstandings and effected advance payments at the end of 2006 amounted to 61,428,443 €. A detailed structure is given in the table below.

	State as of 31.12.2006	State as of 31.12.2005
Distributive consumers:		
-Electric power buyers-other consumption	38,441,881	43,657,220
-Electric power buyers-households	47,431,121	37,111,918
-Electric power buyers-questionable and disputed	8,543,376	8,686,175

Unauthorized consumption-other consumption	2,040,725	2,129,918
Unauthorized consumption-households	4,546,699	3,853,180
Direct consumers:	20,516,907	17,549,938
Advance payments	4,433,115	3,320,233
Other (services, joint operations etc.)	5,156,529	4,743,390
Total:	131,110,351	121,051,972
Minus: provisions of outstandings from buyers	-68,342,373	-55,798,605
Minus: provisions of effected advance payments	-1,339,536	-1,674,717
Overall	61,428,443	63,578,651

In 2006 in the category of distributive consumers, the debt of other consumption decreased, while the debt of households increased by 10.3 million €. In addition, in the category of large consumers, the Aluminum Plant fully settled its liabilities (except for December invoice), while collection from Iron Works Niksic was extremely low.

Stock value as of 31.12.2006 amounted to 11,447,677 € and it showed the following structure: parts and material 10,976,423 €, coal 102,415 € and other stocks 368,839 €. A detailed analysis of stocks is given in the table below.

No.	Part of Joint Stock Company	Stock Value
1	FE Electric Power Generation	4,808,111
2	FE Electric Power Transmission	2,101,308
3	FE Electric Power Distribution	3,884,743
4	FE Power Supply	0
5	OE Directorate of Joint Stock Company	233,549
6	OE Elektrogradnja	419,967
I	TOTAL	11,447,677

ANNEX

FE ELECTRIC POWER GENERATION

The total expenses of the FE Electric Power Generation were realized in the amount of 45,676,269 € as follows:

	HPP Perucica	HPP Piva	TPP Pljevlja	Overall
Operating expenses	12,491,610	9,978,930	39,794,482	62,265,021
Financial expenses	111,862	-4,774,102	-12,462,039	-17,124,279
Extraordinary expenses	258,871	76,181	200,475	535,527
Total	12,862,343	5,281,008	27,532,918	45,676,269

Positive effect of defining the amount of debt to Paris and London club also had effect on the decrease of expenses of HPP Piva and TPP Pljevlja.

Table. Comparative Analysis of Expenses in 2006/2005

Costs	Year 2005 Realized	Year 2006		Level	
		Realized	Planned	Col. (3/4)	Col. (3/2)
1	2	3	4	5	6
I. Operating Expenses					
Costs of electric power purchase	0	0	0	#DIV/0!	#DIV/0!
Costs of electric power purchase from Electric Power Industry of Serbia - other	0	0	0	#DIV/0!	#DIV/0!
Costs of coal for TPP Pljevlja	20,572,603	23,743,189	24,867,500	95.48%	115.41%
Costs of fuel oil for TPP Pljevlja	570,984	441,269	1,224,000	36.05%	77.28%
Costs of chemicals for TE Pljevlja	126,658	120,429	200,600	60.03%	95.08%
Capital investment maintenance and regular maintenance	3,124,587	3,122,967	7,309,838	42.72%	99.95%
Costs of other material and services	1,396,268	1,253,528	1,160,080	108.06%	89.78%
Gross salaries	11,131,100	11,941,645	10,813,260	110.44%	107.28%
Cost of other personal earnings and contributions	1,959,166	1,898,540	2,022,546	93.87%	96.91%
Depreciation	14,653,465	14,677,587	14,231,400	103.14%	100.16%
Insurance costs	835,483	975,796	822,321	118.66%	116.79%
Costs of tax, customs duties and other dues	2,141,943	2,261,780	2,147,500	105.32%	105.59%
Costs of housing construction contributions	563,187	566,121	541,375	104.57%	100.52%
Other non-material costs	1,625,560	1,030,535	2,271,366	45.37%	63.40%
Costs from previous years	341,487	231,635	0	#DIV/0!	67.83%
Total I	59,042,492	62,265,021	67,611,786	92.09%	105.46%
II. Financial Expenses					
Total II	1,652,862	-17,124,279	1,538,410	-1113.12%	-1036.04%
III. Non-Operating and Extraordinary Expenses					
Total III	381,637	535,527	426,700	125.50%	140.32%
OVERALL (I+II+III):	61,076,992	45,676,269	69,576,896	65.65%	74.78%

FE ELECTRIC POWER TRANSMISSION

The total expenses of the FE Electric Power Transmission were realized in the amount of 19,872,108 € and they were by 8.78% or 1,604,590 € higher in relation to the planned amount, i.e. they were by 29.30% or 4,503,126 € higher than the expenses realized in the previous year.

It should be pointed out that increased expenses in 2006 resulted from the agreement on the repayment of long-term credits (to Paris club of creditors) signed between the Electric Power Industry of Montenegro and Government of the Republic of Montenegro. As a result of additional entry of exchange differences and interests, the costs of FE Electric Power Transmission increased in 2006 by 3.5 million euros.

Table. Comparative Analysis of Expenses in 2006/2005

Costs	Year 2005 Realized	Year 2006		Level	
		Realized	Planned	Col. (3/4)	Col. (3/2)
1	2	3	4	5	6
I. Operating Expenses					
Costs of electric power purchase	0	0	0	#DIV/0!	#DIV/0!
Costs of electric power purchase from Electric Power Industry of Serbia - other	0	0	0	#DIV/0!	#DIV/0!
Costs of coal for TPP Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Costs of fuel oil for TPP Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Costs of chemicals for TE Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Capital investment maintenance and regular maintenance	1,560,187	1,970,987	2,980,115	66.14%	126.33%
Costs of other material and services	575,478	538,646	703,724	76.54%	93.60%
Gross salaries	3,799,345	3,950,711	4,691,460	84.21%	103.98%
Cost of other personal earnings and contributions	793,203	981,536	609,946	160.92%	123.74%
Depreciation	5,400,122	5,498,696	5,652,900	97.27%	101.83%
Insurance costs	922,691	450,091	630,000	71.44%	48.78%
Costs of tax, customs duties and other dues	332,980	455,952	2,431,780	18.75%	136.93%
Costs of housing construction contributions	191,807	196,822	232,649	84.60%	102.61%
Other non-material costs	1,511,786	1,757,996	100,420	1750.64%	116.29%
Costs from previous years	6,625	2,594	0	#DIV/0!	39.15%
Total I	15,094,225	15,804,031	18,032,994	87.64%	104.70%
II. Financial Expenses					
Total II	185,911	3,493,104	234,524	1489.44%	1878.91%
III. Non-Operating and Extraordinary Expenses					
Total III	88,846	574,973	0	#DIV/0!	647.16%
OVERALL (I+II+III):	15,368,982	19,872,108	18,267,518	108.78%	129.30%

FE ELECTRIC POWER DISTRIBUTION

In the period January-December 2006 the total expenses at the level of FE Electric Power Distribution amounted to 63,427,843 €. They were by 12.25% or 6,922,449 € higher in comparison with the planned expenses and by 14.54% or 10,790,163 € lower in comparison with the expenses in the previous year.

Operating expenses showed significant increase in comparison with the previous year only in the category of costs of taxes, contributions, customs duties and other dues due to the increase of local public utilities dues.

Non-operating and extraordinary expenses were lower in comparison with the previous year as a result of taking over of electric power consumers by FE Power Supply.

Table. Comparative Analysis of Expenses in 2006/2005

Costs	Year 2005	Year 2006		Level	
	Realized	Realized	Planned	Col. (3/4)	Col. (3/2)
1	2	3	4	5	6
I. Operating Expenses					
Costs of electric power purchase	30,615	27,179	0	#DIV/0!	88.78%
Costs of electric power purchase from Electric Power Industry of Serbia - other	0	0	0	#DIV/0!	#DIV/0!
Costs of coal for TPP Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Costs of fuel oil for TPP Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Costs of chemicals for TE Pljevlja	24	0	0	#DIV/0!	0.00%
Capital investment maintenance and regular maintenance	6,704,851	6,843,445	9,095,429	75.24%	102.07%
Costs of other material and services	3,744,044	3,042,454	2,172,716	140.03%	81.26%
Gross salaries	18,313,210	18,862,038	17,518,882	107.67%	103.00%
Cost of other personal earnings and contributions	3,394,482	3,370,475	3,183,772	105.86%	99.29%
Depreciation	16,130,198	15,968,425	16,452,234	97.06%	99.00%
Insurance costs	674,581	907,737	614,141	147.81%	134.56%
Costs of tax, customs duties and other dues	4,493,226	6,681,590	5,838,115	114.45%	148.70%
Costs of housing construction contributions	863,417	913,451	869,086	105.10%	105.79%
Other non-material costs	1,619,805	1,519,136	561,839	270.39%	93.79%
Costs from previous years	393,367	477,664	0	#DIV/0!	121.43%
Total I	56,361,819	58,613,595	56,306,214	104.10%	104.00%
II. Financial Expenses					
Total II	3,917	40,139	0	#DIV/0!	1024.81%
III. Non-Operating and Extraordinary Expenses					
Total III	17,852,271	4,774,110	199,180	2396.88%	26.74%
OVERALL (I+II+III):	74,218,007	63,427,843	56,505,394	112.25%	85.46%

FE POWER SUPPLY

The total expenses of FE Power Supply in 2006 amounted to 63,262,552 € and they were by 10,568,534 € or 20.06% higher than the planned expenses.

Having in mind that in 2006 the process of forming FE Power Supply was practically finalized, the resulting costs in the previous year were entered in the ledgers of FE Electric Power Distribution and FE Power Supply.

Table. Comparative Analysis of Expenses in 2006/2005

Costs	Year 2005 Realized	Year 2006		Level	
		Realized e	Planned	Col. (3/4)	Col. (3/2)
1	2	3	4	5	6
I. Operating Expenses					
Costs of electric power purchase		43,143,066	38,637,558	111.66%	
Costs of electric power purchase from Electric Power Industry of Serbia - other		0	0	#DIV/0!	
Costs of coal for TPP Pljevlja		0	0	#DIV/0!	
Costs of fuel oil for TPP Pljevlja		0	0	#DIV/0!	
Costs of chemicals for TE Pljevlja		0	0	#DIV/0!	
Capital investment maintenance and regular maintenance		31,408	27,560	113.96%	
Costs of other material and services		814,525	3,364,719	24.21%	
Gross salaries		2,353,228	2,575,944	91.35%	
Cost of other personal earnings and contributions		283,301	413,234	68.56%	
Depreciation		80,357	78,744	102.05%	
Insurance costs		8,957	25,000	35.83%	
Costs of tax, customs duties and other dues		1,153,798	1,561,626	73.88%	
Costs of housing construction contributions		112,890	123,633	91.31%	
Other non-material costs		645,672	886,000	72.87%	
Costs from previous years		451		#VALUE!	
Total I		48,627,654	47,694,018	101.96%	
II. Financial Expenses					
Total II		262,808	0	#DIV/0!	
III. Non-Operating and Extraordinary Expenses					
Total III		14,372,090	5,000,000	287.44%	
OVERALL (I+II+III):		63,262,552	52,694,018	120.06%	

OE DIRECTORATE OF JOINT STOCK COMPANY

In the period January-December 2006 the total expenses of OE Directorate of Joint Stock Company amounted to 22,038,995 €. They were by 51.93% or 23,810,098 € or 20.06% lower than the expenses in the previous year.

The decrease of expenses in comparison with the previous year resulted from the fact that certain expenses of the Directorate were taken over by functional entities, in accordance with the principles of functional division.

The agreement on the repayment of long-term credits signed with the Government of the Republic of Montenegro and lost litigation against the Oil Industry of Serbia had effect on the increase of expenses in the comparison with the planned amount.

Table. Comparative Analysis of Expenses in 2006/2005

Costs	Year 2005 Realized	Year 2006		Level	
		Realized	Planned	Col. (3/4)	Col. (3/2)
1	2	3	4	5	6
I. Operating Expenses					
Costs of electric power purchase	31,156,054	0	0	#DIV/0!	0.00%
Costs of electric power purchase from Electric Power Industry of Serbia - other	125,928	-645,423	0	#DIV/0!	-512.53%
Costs of coal for TPP Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Costs of fuel oil for TPP Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Costs of chemicals for TE Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Capital investment maintenance and regular maintenance	202,131	215,483	215,915	99.80%	106.61%
Costs of other material and services	1,837,971	1,155,726	459,453	251.54%	62.88%
Gross salaries	4,376,840	3,446,848	3,156,908	109.18%	78.75%
Cost of other personal earnings and contributions	1,379,138	1,265,849	715,128	177.01%	91.79%
Depreciation	368,019	350,092	440,643	79.45%	95.13%
Insurance costs	28,146	27,552	42,359	65.04%	97.89%
Costs of tax, customs duties and other dues	1,168,802	62,174	189,000	32.90%	5.32%
Costs of housing construction contributions	221,272	163,969	151,129	108.50%	74.10%
Other non-material costs	3,733,276	4,041,257	900,800	448.63%	108.25%
Costs from previous years	679,091	257,400	48,000	536.25%	37.90%
Total I	45,276,667	10,340,927	6,319,335	163.64%	22.84%
II. Financial Expenses					
Total II	489,182	5,922,377	180,000	3290.21%	1210.67%
III. Non-Operating and Extraordinary Expenses					
Total III	83,245	5,775,691	727,000	794.46%	6938.19%
OVERALL (I+II+III):	45,849,094	22,038,995	7,226,335	304.98%	48.07%

OE ELEKTROGRADNJA

The total expenses of OE Elektrogradnja amounted to 3,449,071 € and they were by 15.32% or 458,255 € higher than the planned amount, i.e. they were by 9.15% or 288,999 € higher than the expenses in the previous year.

Table. Comparative Analysis of Expenses in 2006/2005

Costs	Year 2005	Year 2006		Level	
	Realized	Realized	Planned	Col. (3/4)	Col. (3/2)
1	2	3	4	5	6
I. Operating Expenses					
Costs of electric power purchase	0	0	0	#DIV/0!	#DIV/0!
Costs of electric power purchase from Electric Power Industry of Serbia - other	0	0	0	#DIV/0!	#DIV/0!
Costs of coal for TPP Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Costs of fuel oil for TPP Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Costs of chemicals for TE Pljevlja	0	0	0	#DIV/0!	#DIV/0!
Capital investment maintenance and regular maintenance	560,766	790,761	238,850	331.07%	141.01%
Costs of other material and services	184,067	193,232	377,325	51.21%	104.98%
Gross salaries	1,504,245	1,618,271	1,509,300	107.22%	107.58%
Cost of other personal earnings and contributions	460,743	473,480	446,590	106.02%	102.76%
Depreciation	231,583	181,225	240,704	75.29%	78.26%
Insurance costs	12,253	9,467	9,487	99.79%	77.26%
Costs of tax, customs duties and other dues	3,170	3,799	3,150	120.62%	119.87%
Costs of housing construction contributions	75,959	77,601	72,000	107.78%	102.16%
Other non-material costs	76,882	84,884	71,250	119.13%	110.41%
Costs from previous years	19,290	0	0	#DIV/0!	0.00%
Total I	3,128,959	3,432,720	2,968,656	115.63%	109.71%
II. Financial Expenses					
Total II	102	40	160	24.79%	38.98%
III. Non-Operating and Extraordinary Expenses					
Total III	31,011	16,311	22,000	74.14%	52.60%
OVERALL (I+II+III):	3,160,071	3,449,071	2,990,816	115.32%	109.15%