



Annual report

2018

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Annual report

2018



Introductory note

Projects, investments and profit

Dear,

With intention to continuously, transparently and objectively inform the stakeholders about business results and our Company's plans, we are pleased to present the 2018 Annual Report of Elektroprivreda Crne Gore AD Niksic.

We are proud to say that the past year was one of the most successful business years of Elektroprivreda Crne Gore both in terms of generation and finance. Thanks to extraordinary operational readiness and reliability of our generation facilities, we managed to use the favourable hydrological conditions to the maximum extent, thus exceeding the annual hydro-generation plan before the end of 2018 what was followed by an exceptional financial outcome. Such positive results are to be largely credited to our employees, but also to timely and right decisions made by Company management bodies and team.

We have undertaken all-out preparations for the upcoming challenges, which is why we launched a five-year investment cycle valued above €170 million. Namely, it is our wish to maintain the leadership in the electricity market of our country, especially under conditions of the open market and potential appearance of new suppliers, as well as to ensure active participation and top tier position in the regional electricity market through both reconstruction and modernization of the existing as well as development of new generation capacities.

Bearing in mind that quality planning and the investment project preparation are crucial for fulfillment of the set development goals and energy transition, we are putting our efforts to creating conditions for implementation thereof, thereby not only increasing the Company value but also strongly supporting overall development of Montenegro, primarily of its economy.

Satisfied employees who, with the express feeling of belonging and loyalty, endeavor to fulfill the defined goals are what, to large extent, makes a successful company. This is why we try to continuously invest in education and creation of better conditions for all employees. It is our number one priority. We are dedicated to upgrading the corporate environment to even larger level and to join forces in achieving results that serve to interest of our customers, employees and, ultimately, EPCG shareholders.

Igor Noveljic
CEO at EPCG

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About the company

Elektroprivreda Crne Gore A.D. – Nikšić (hereinafter referred to as EPCG or the Company) is a vertically integrated company, whose core activity is electricity generation and supply in Montenegro. Apart from the mentioned, the Company deals with construction and maintenance of power facilities, electricity trading, designing and supervision as well as other activities provided for in EPCG Statute.

Elektroprivreda Crne Gore has been registered as:

The business company with the Tax Administration - Central Registry of the Commercial Entities under No. 4-0000330/059

As the issuer of the securities with the Capital Market Commission

As a holder of two licences for energy activity with the Energy Regulatory Agency:

- E-001 – for electricity generation and
- E-021 – for electricity supply.



Corporate bodies of the Company



Shareholders' Meeting



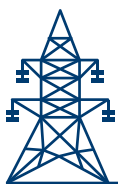
Board of Directors



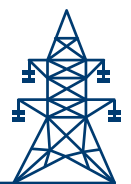
Chief Executive Officer



Secretary of the Company



Production capacity



The Company has total 877.38 MW of gross installed capacity for electricity generation, whereof:

342 MW

HPP Piva

307 MW

HPP Perucica

225 MW

TPP Pljevlja

3,38 MW

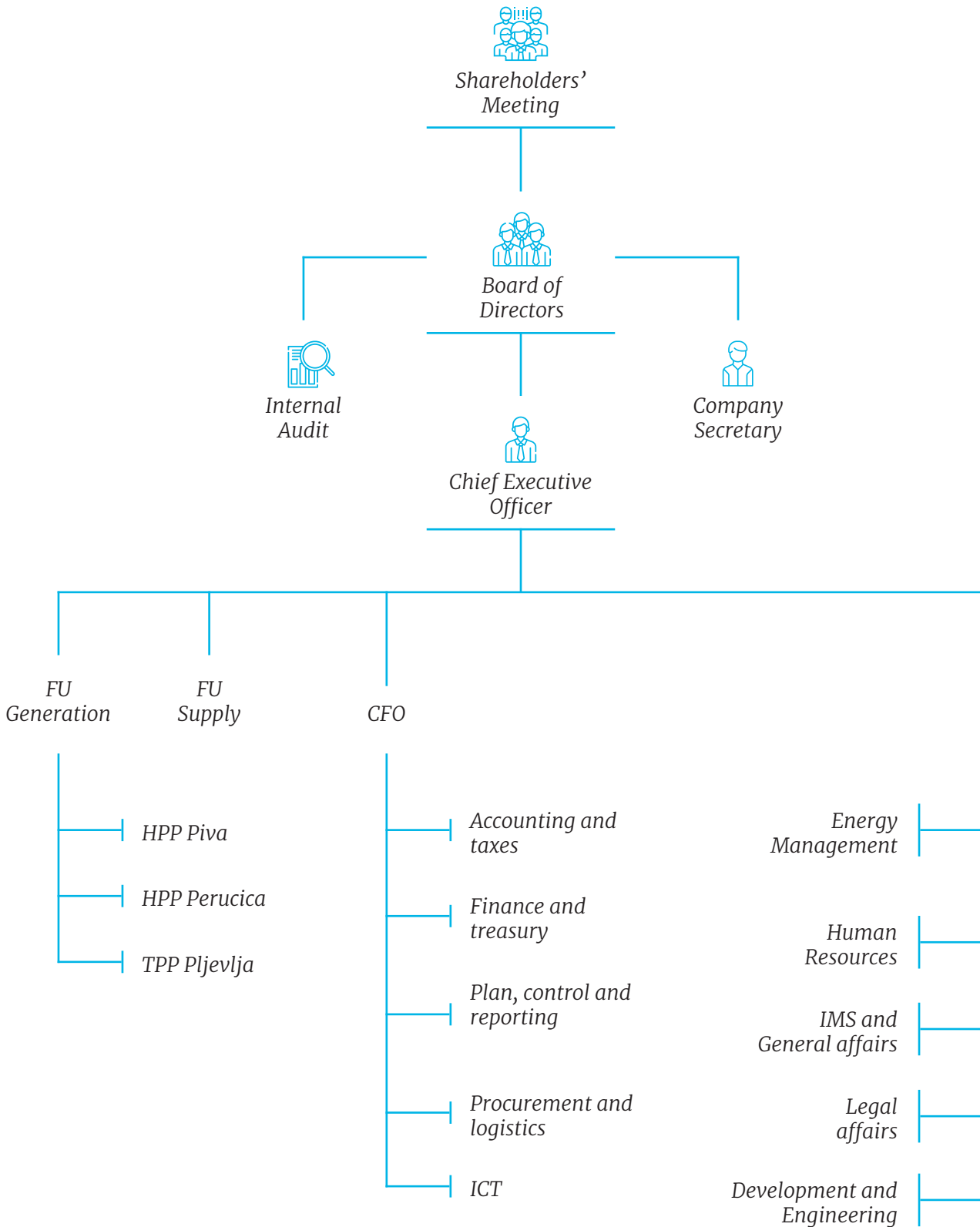
sHPP*

*Rijeka Musovica, Savnik, Lijeva Rijeka, Podgor and Rijeka Crnojevica

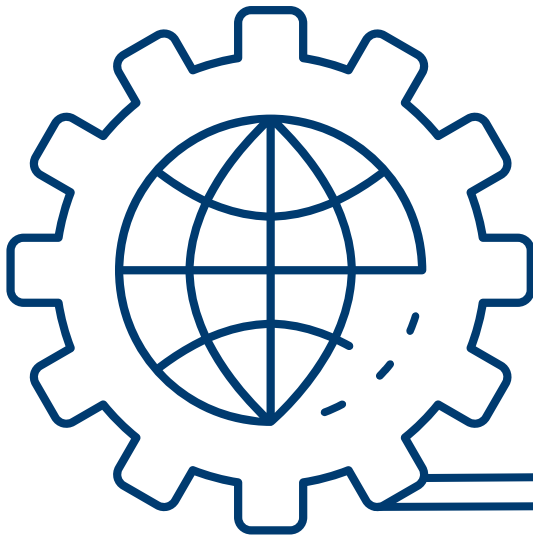
Activities of EPCG are carried out in the manner which secures regular and qualitative electricity supply and meets requirements of the Montenegrin consumption, business profitability, management efficiency and establishment of good business relations with all the partners.

1. Organizational structure

Organizational structure of the Company consists of the Company's Corporate Bodies and organizational units (operational and functional units). Organizational scheme of EPCG, excluding the companies in majority ownership of EPCG (Crnogorski elektrodistributivni sistem d.o.o., Podgorica – 100%, Rudnik Uglja AD Pljevlja – 100%, EPCG d.o.o. Beograd – 100% and Zeta energy d.o.o. Danilovgrad – 51%) is given in the below text.



Mission, Vision and General objectives

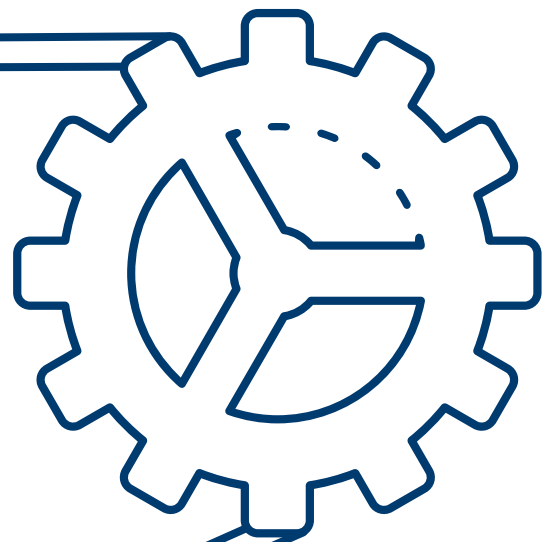


EPCG Vision

Leader in the economic development of Montenegro, competitiveness at the European market and active participation in new market challenges through investment in people, green energy, new technologies and capacities, maintenance and optimum use of resources alongside digital transformation of the company.

EPCG Mission

Reliable and quality generation, electricity supply and trading in addition to full compliance with requirements and needs of our customers and other interested parties, improvement of the environmental care and high degree of corporate responsibility. Improvement of business operations by compliance with and application of the highest professional and ethical standards, responsible behaviour while performing activities in line with applicable regulations, compliance and provision of trust both in EPCG as well as in broader business environment.



General objectives

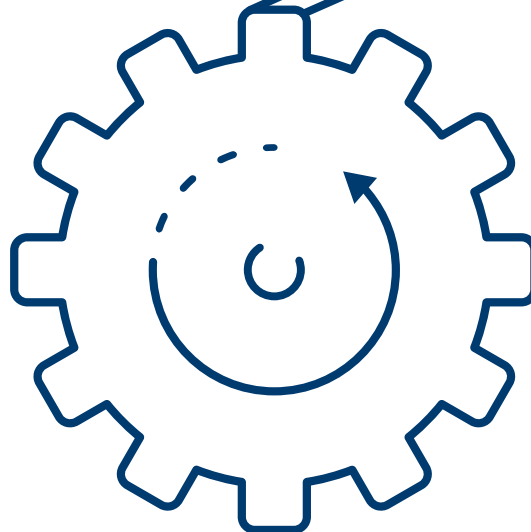
Safe and reliable electricity supply to customers;

Safe and efficient generation;

Increase in business efficiency and effectiveness;

Satisfied customer;

Increase in energy efficiency throughout all generating segments;



Efficient energy management – electricity trading and resource management;

Attractive employer to accumulate human potentials;

Compliance with environmental standards;

Compliance with occupational safety and health standards;

Presence at international markets.

Corporate Management

International financial group, within the World Bank's Group, defines the corporate management as a relation between different interests holders as compared to the control of companies. Primarily, corporate management deals with relations between company's owners – shareholders and those who manage the company's business operations – administration, staff the shareholders entrusted with running the company.

Corporate management rules in the Company are based on relevant legal framework, company's Statute and internal procedures.

Shareholder's Meeting

The Shareholders' Meeting is the highest body of the Company. Some of the exclusive rights of the Shareholders' Meeting, in accordance with the Statute of EPCG, are: to enact the Statute and its amendments, to elect and dismiss the members of the Board of Directors, to elect and dismiss the Auditor, to elect and dismiss the liquidator, to decide on the use of the Company's assets, the value of which exceeds 10% of the Company's basic capital, to adopt annual financial statements and reports on the Company's business operations, as well as all other rights in accordance with the Statute of EPCG. The EPCG Statute also defines the obligations of the Shareholder's Meeting, as well as all relevant actions under its jurisdiction.



At XVI regular Shareholder's meeting of the Company, held on August 20, 2018, decisions were made about:

adoption of financial statements and consolidated financial statements of Elektroprivreda Crne Gore AD Niksic for 2017

adoption of the Business Report of Elektroprivreda Crne Gore AD Niksic for 2017

covering losses of Elektroprivreda Crne Gore AD Niksic

distribution of profit of Elektroprivreda Crne Gore AD Niksic

dividend payment of Elektroprivreda Crne Gore AD Niksic

approval of purchase of own shares of Elektroprivreda Crne Gore AD Niksic

selection of the auditor for Elektroprivreda Crne Gore AD Niksic

dismissing the members of the Board of Directors of Elektroprivreda Crne Gore AD Niksic

electing the members of the Board of Directors of Elektroprivreda Crne Gore AD Niksic

In the year of 2018, three shareholders assembly meetings were held, the first one on the January 31, 2018, the second one on the March 28, 2018 and the third one on the August 20, 2018.

At XVIII extraordinary Shareholder's meeting of the Company, held on January 31, 2018, decision about approval of a sales contract between EPCG and Rudnik uglja Pljevlja was made.

At XIX extraordinary Shareholder's meeting of the Company, held on March 28, 2018 decision to adopt the Report on the assessment of fair value and investment value of shares Rudnik uglja A.D. Pljevlja together with the Report containing analysis of possible models for the takeover of Rudnik uglja A.D. Pljevlja was made, as well as the decision about initiating the procedure of voluntary public offer for the takeover of the Rudnik Uglja A. D. Pljevlja.



Board of Directors

The Board of Directors is the managing and leading authority of the Company whose decisions are implemented by the Chief Executive Officer, the Company Secretary and the Executive Managers. The Board of Directors is a collective body of seven members and is headed by the Chairman. Members are elected by the Shareholders' Meeting, and the tasks and duties of this body are defined by EPCG Statute.

In 2018, the Board of Directors held nine meetings, whereof one constitutive, two extraordinary and six regular meetings.

Audit Committee and Internal Audit Team

Audit Committee and the Internal Audit Team have been established for performing auditing activities in the Company.

In accordance with the authorizations provided by the Law on Accounting and Auditing, the Audit Committee monitors the process of financial reporting, internal control and legal and ethical management of the Company. The Audit Committee has three members, of which at least one expert in the field of accounting and auditing. It is elected by the Board of Directors together with the secretary of this body.

The internal audit team, in accordance with the law, performs independent and objective activities aimed to improve the Company's operations through a systematic approach to assessing and improving the efficiency of the risk management process and corporate governance control. The structure and composition of the Internal Audit Team is determined by the Board of Directors.



Equity and ownership structure of the Company

855.285.365,96€
Registered share capital
of EPCG

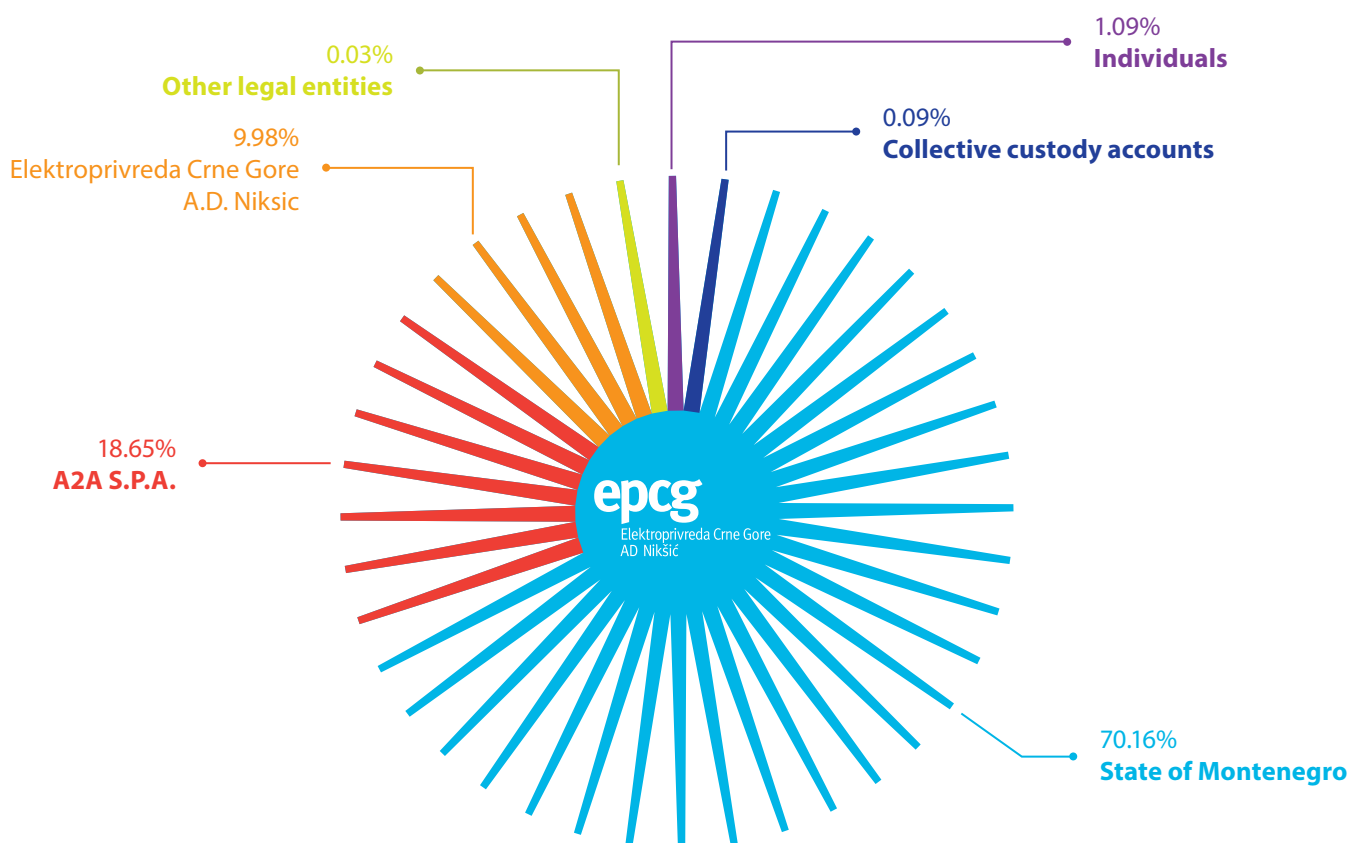
131.229.055
Total number
of shares

6,5175€
Nominal value
of the share

The overview below shows the registered ownership structure of capital with nominal and percentage data on equity participation in the EPCG:

STRUCTURE OF THE COMPANY'S SHARE CAPITAL AS AT 31.12.2018.				
Shareholders	Number of shares	Nominal value of the share	Total share value (€)	Share in capital
State of Montenegro	92.073.126	6,5175	600.086.599	70,16%
A2A S.P.A.	24.479.314	6,5175	159.543.929	18,65%
Elektroprivreda Crne Gore A.D. Niksic	13.096.653	6,5175	85.357.436	9,98%
Other legal entities	37.483	6,5175	244.295	0,03%
Individuals	1.427.602	6,5175	9.304.396	1,09%
Collective custody accounts	114.877	6,5175	748.711	0,09%
TOTAL	131.229.055		855.285.366	100,00%

Tabela No. 1: Capital Structure of EPCG as at 31st of December 2018



Company has 13.096.653 own shares as at 31st of December 2018. Namely, at XVI regular Shareholder's Meeting of the Company, held on the August 20, 2018, the decision has been made whereby Elektroprivreda Crne Gore AD Niksic was allowed to buy 13.052.876 own shares from shareholders A2A S. p. A Brescia at a price of 3,95754012 € per share.

Important events in Company

During the reporting period, ownership stake in the Company has changed. Namely, the state of Montenegro has increased the ownership stake in EPCG from 57.01% to 70.16%, by buying 17.252.885 shares from the Italian company A2A for 68.939.596 €. The part of the shares was purchased on the basis of the “put option” initiated by the Italian company, which aims to sell the complete package of shares to the state of Montenegro, in accordance with the signed contracts between these two parties.



Regular XVI Shareholder’s Meeting, held on August 20, 2018, made a decision to authorize EPCG to purchase 13.052.876 own shares from shareholder A2A S. p. A Brescia, at a price of 3.95754012 € per share.

At the same meeting, the Shareholder’s Meeting also made the Decision on payment of dividends to shareholders of Elektroprivreda Crne Gore AD Niksic. EPCG’s retained earnings, as at December 31, 2017 in the amount of 55,282,227.64 € is intended for dividend payout to shareholders of the Company, in proportion to their stake in the ownership structure. According to items 2 and 6 of this Decision, the dividend was paid in cash within 30 days from the date of adoption of this Decision by inward remittance of the corresponding funds to specially opened accounts of shareholders with a commercial bank.

The Decision initiating the procedure of voluntary public offer for takeover of Rudnik uglja AD Pljevlja (No. 10-00-13052 of March 29, 2018) was made at XIX Extraordinary Shareholder’s Meeting held on March 28, 2018, whereby EPCG acquired ownership of all shares pertaining to that company as at July 18, 2018 inclusive.

The sum of 32,412,435.20€ was earmarked for this purpose. The acquisition of Rudnik uglja AD Pljevlja was encouraged by good examples of regional countries as well as the need to engird electricity production in TPP “Pljevlja”. Thus, it will be possible to manage and rationalize the costs of coal within the EPCG Group, which should lead to a price reduction of electricity generation in TPP “Pljevlja”.



Representatives of EPCG and a group of bidders - Institute for the Development of Water Resources “Jaroslav Černi” a. d. and Energoprojekt Hidroinzenjering a. d. signed on February 1, 2018, the Contract on development of the Preliminary Design with the Feasibility Study and the Environmental Impact Assessment Study of the future HPP “Komarnica”.



On March 28, 2018, EPCG and STEAG Energy Services have, in the premises of TPP “Pljevlja”, signed a €664.260 worth contract on development of the Preliminary Design of Environmental Reconstruction of TPP “Pljevlja” – Unit I.



Representatives of EPCG and Ivicom Holding GmbH from Vienna signed on May 18, 2018, Memorandum of Understanding regarding implementation of the "Gvozd" wind farm project in Niksic municipality.



EPCG and a consortium of Slovenian and Italian companies Litostroj and ABB JV have signed on August 30, 2018 the Contract of reconstruction and modernization of HPP "Piva", worth 10.3 M€.



In May 2018, the Ministry of Economy announced Public Invitation for lease of the total of 6.621.121 m² of state-owned land for the design, construction, use and maintenance of a solar power plant with an installed capacity exceeding 200 MW at the location of Briska Gora, Ulcinj Municipality. The bid submitted by the Consortium EPCG and Fortum, which consists of Elektroprivreda Crne Gore, Fortum Corporation - Finland and Sterling & Wilson International Solar was selected on October 18, 2018, as the first-ranked by the Tender Commission entrusted with opening and ranking of the bids received in line with the Public Invitation. The total amount of investment envisaged by the bid exceeds 170 M€, while construction of the solar power plant is to be carried out in phases: Phase I with the installed capacity of 50 MW and the expected annual production of 90 GWh will be completed within 18 months, while Phase II with the installed capacity of 200 MW and expected annual production of above 360 GWh will be completed within 36 months. Taking into account the size and significance of the investment, if implemented, together with the construction of the underwater cable, it will be the most important investment in energy sector in the last thirty years.

100 miliona euros in the State budget

————— EPCG Group (EPCG, CEDIS and RUP) has paid into the State budget in 2018. —————

60.692.725,99€
obligations

35.307.699,39€
dividends

2. / Generation capacities and electricity supply

Capacity of each power system is based on construction and capacities of generation facilities, which are, first of all, expected to provide sufficient electricity volumes, which is nowadays challenging. In times of increasing energy requirements, the importance of electricity generation for power system stability need not be proven since it is an indispensable prerequisite for commercial and economic growth.

Generation capacities

The power of our energy system is based on the generating capacities of HPPs Piva and Perucica and TPP Pljevlja.



HPP „Perucica”

is the oldest big hydro power plant in Montenegro, commissioned in 1960. It was named after the natural spring Perucica located in the near vicinity of the plant. It is located at the territory of the Municipality of Niksic, in the northern part of Bjelopavlici field, while the small hydro power plants are located at the territories of the Municipalities of Kolasin, Podgorica, Cetinje and Savnik. Its gross installed capacity amounts to 307 MW. HPP Perucica generated 1.042 GWh in 2018, while the EPCG's small HPPs generated 4 GWh during the same period.



HPP „Piva”

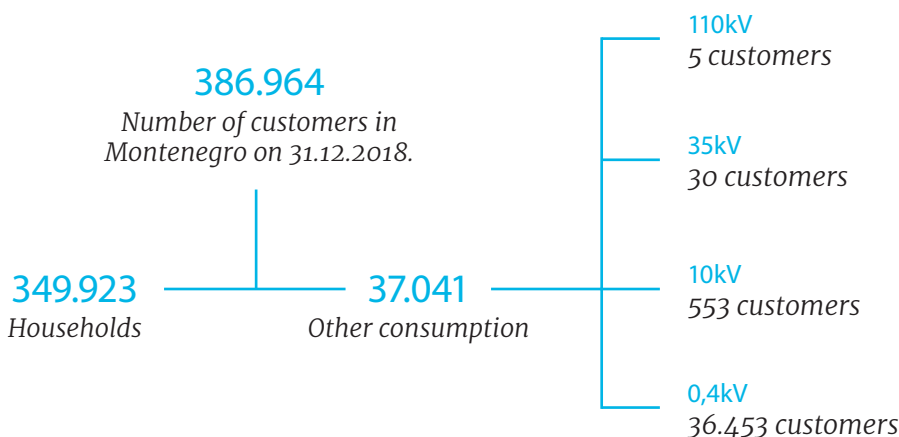
is a dam-toe power plant with one of the highest arch dams in the world. The Plant operates since 1976. Its basic activity is electricity generation in peak mode, given the possibility of fast starting-up and synchronizing to 220 kV OHL. It is located in the massif at north-western part of Montenegro. Due to specific topography terrain features, the whole powerhouse was built underground. Its gross installed capacity amounts to 342 MW. HPP Piva generated 994 GWh in 2018.



TPP „Pljevlja”

is the first condensation thermal power plant in Montenegro commissioned in 1982. TPP is located at the 4th kilometre of Pljevlja – Đurđevica Tara – Zabljak road. TPP has been supplied by water, for cooling and other needs, from the reservoir Otilovici, located at Cehotina River and approximately 8 asphalted km away from the thermal power plant. The gross installed capacity of TPP Pljevlja amounts to 225 MW. TPP Pljevlja generated 1.444 GWh in 2018.

Electricity supply



The “Golden team” project

The Golden Team project started in August 2012, in order to increase the number of customers who regularly settle their obligations for consumed electricity. As a result of the project, the number of regular customers from the household categories is constantly increasing and on December 31, 2018 that number amounted to 195.002.

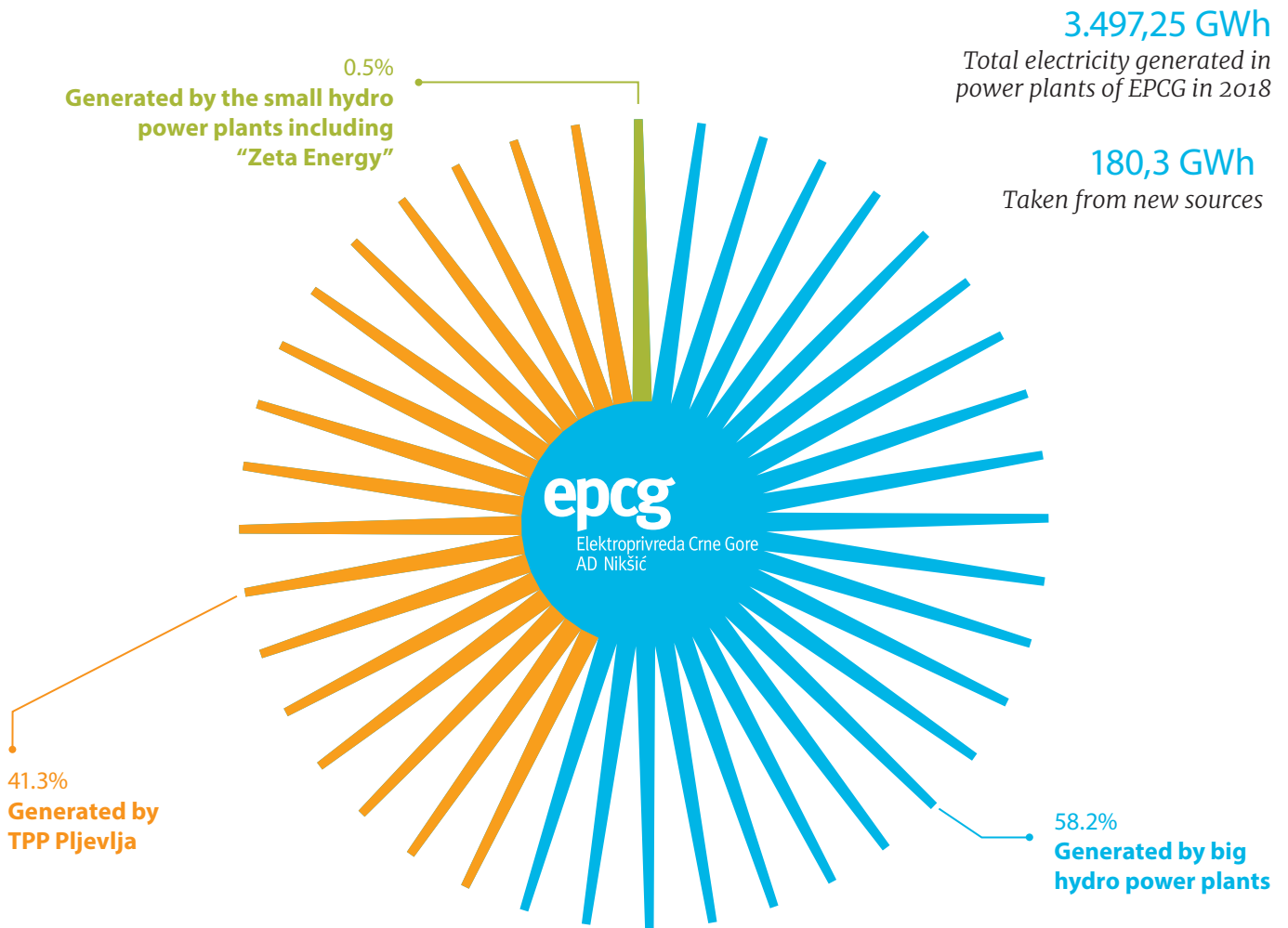
From January 1, 2018 EPCG increased the percentage of discounts for members of the Golden Team to 13% on the price of active electricity, instead of the previous 10%. During the same period, discount of 3% on the price of active electricity for regular customers from the category of other distribution customers was introduced, except for small customers in accordance with Article 196 of the Energy Law.

Within the project “Golden Team” during 2018, prize giveaway was realized named “The Golden Team, awards and discounts”, with a total prize amount of around 20.000 € and the main prize was a passenger vehicle. All customers from the household category, who as at 31st of December 2018 did not have any debts to the EPCG, had the right to participate in the prize competition.



3. / Realisation of energy balance

Generation of electricity



1.042,3 GWh

Total electricity generated by HPP „Perucica”

+13,3% more than planned
+85,7% more than in 2017

993,9 GWh

Total electricity generated by HPP „Piva”

+32,5% more than planned
+176% more than in 2017

17,3 GWh

Total electricity generated by EPCG small hydro power plants

-8,4% less than planned
-6% less taken than planned from „Zeta Energy”

1.443,8 GWh

Total electricity generated by TPP „Pljevlja”

+9,6% more than planned
+14% more than in 2017

501,8 GWh

Generated the most electricity in March

194,5 GWh

Generated the least electricity in May



Reservoirs and inflows

At the beginning of the year, there were 162,3 GWh in the reservoirs of HPP Perucica, which is 20% more than the planned quantity. At the end of the year there were 125.0 GWh in the reservoirs, which makes 83,3% of the planned quantity.

There was 250 GWh i.e. 92,3% more than planned in the reservoir of HPP Piva at the beginning of the year. The status of reservoir at the end of the year was 159,4 GWh, i.e. 22,3% more compared to the planned quantity. HPP Piva operated at its mean monthly elevations – 651,7 m.a.s.l. in September (the lowest in 2018) up to 673.8 m.a.s.l. in May (the highest in 2018). The mean annual elevation was at 663.95 m.a.s.l. The mean annual inflow was 68,8 m³/s which was about 10% more compared to the planned.



Operational readiness of the plants

Availability and reliability coefficients of the plants in 2018

HPP „Perucica”

85,6%

Availability
coefficient

99,5%

Reliability
coefficient

HPP „Piva”

91,1%

Availability
coefficient

99,9%

Reliability
coefficient

TPP „Pljevlja”

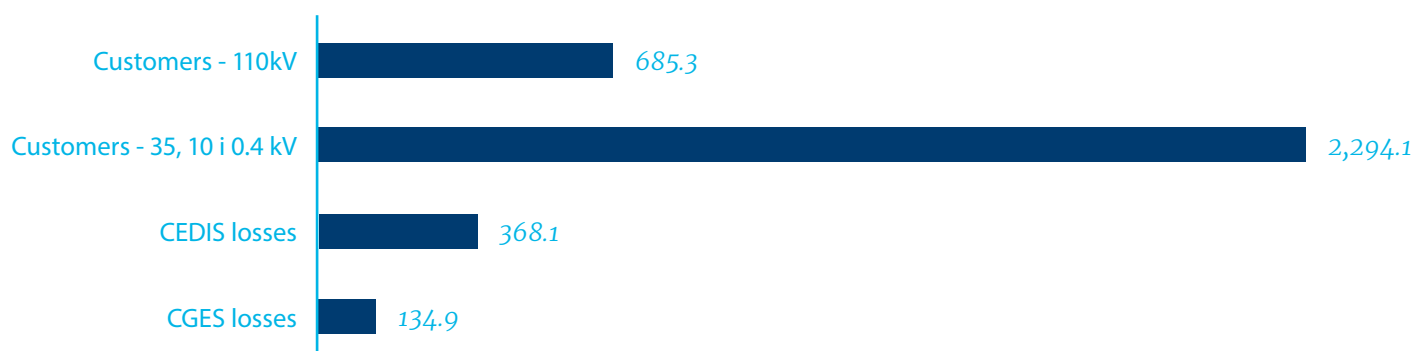
80,8%

Availability
coefficient

97,2%

Reliability
coefficient

Electricity consumption by EPCG customers



Tabular overview of actual values of EPCG electricity balance

Below is the tabular review of actual values of EPCG electricity balance for 2018.

Realisation of energy balance (GWh)	Actual 2018	Plan 2018	Actual/plan	Actual 2017	2018/2017
1. GENERATION	3.677	3.219	114%	2.327	158%
1.1. EPCG plant's generation	3.484	2.992	116%	2.190	159%
1.1.1. HPP's generation	2.040	1.675	122%	925	221%
- HPP "Perucica"	1.042	920	113%	561	186%
- HPP "Piva"	994	750	133%	361	276%
- EPCG's sHPPS	4	5	92%	3	127%
1.1.2. TPP "Pljevlja" Generation	1.444	1.317	110%	1.265	114%
1.2. Buyout of generation	193	228	85%	137	141%
1.2.1. From sHPP "Zeta Energy"	13	14	95%	14	96%
1.2.2. Portion of feed-in renewable sources	180	214	84%	65	276%
1.2.3. From new sources at testing phase	0,5	-	-	58	1%
2. PROCUREMENT	780	179	436%	1.203	65%
2.1. Purchase on electricity market - Import	744	170	438%	1.173	63%
2.2. ERS - LT contract	8	9	88%	9	86%
2.3. CGES - compensation program	14	0	0%	15	95%
2.4. Deviation - overtake from EES	14	0	0%	6	233%
3. AVAILABLE FOR SALE (1+2)	4,458	3.398	131%	3.530	126%
4. SALES	4,458	3.399	131%	3.530	126%
4.1. Sales on electricity market - export	946	473	200%	379	250%
4.2. ERS LT contract	8	9	82%	9	80%
4.3. CGES - tertiary regulation	5	0	0%	9	57%
4.4. CGES - compensation program	17	0	0%	20	87%
4.5. For KAP	604	613	99%	378	160%
4.6. CEDIS - for distribution losses	368	0	0%	382	96%
4.7. CGES - for transmission losses	135	0	0%	0	0%
4.8 Sales to customers of FU Supply	2.375	2.304	103%	2.353	101%
4.8.1. Customers at 110 kV	81	88	92%	82	98%
- Steelworks	39	47	83%	40	96%
- Railway infrastructure	19	22	87%	20	93%
- TPP Pljevlja selfconsumption	8	8	100%	8	110%
- Other clients at 110 kV	15	11	136%	14	103%
4.8.2. Customers at 35, 10 and 0,4 kV	2.294	2.216	104%	2.271	101%

Table No. 2: Overview of actual values of EPCG 2018 Electricity Balance

4. / Collection of accounts receivable for delivered electricity

The total of 247.958.706,08€ was collected out of the total sales invoiced by the supplier in 2018 and outstanding accounts receivable from previous years, 102,30% collection rate relative to the total gross sales in 2018.

302.672.463€

The total operating revenues from sale in 2018

242.388.759,31€

The total gross sales invoiced by the supplier (VAT inclusive) for direct and distribution customers in 2018

4.668.613,60€

Direct customers

237.720.145,71€

Distribution customers

5. / Personnel policy

413

FU Generation

191

FU Supply

392

Head Office

996 *Total number of employees in EPCG*

By continuous investment into human resources development, EPCG strives to ensure employees' readiness to meet challenges in day-to-day operations, thus contributing to improvement of such operations.

In 2018, the Company paid particular attention to training and education of employees as well as to purchase of professional literature and payment of membership fees of employees within professional organizations.



6. Occupational health and safety and environmental protection

All the activities pertaining to occupational health and safety, protection and rescue and environmental protection are carried out depending on requirements arising from the Law on Occupational Health and Safety, Law on Rescue and Protection, Law on Environment, by-laws pertaining to this area and other relevant regulations in Montenegro and internal company acts regulating these areas.

Occupational health and safety

During 2018, the following was done in the area of development of regulations and systemic documents of the Company:

About 70% of the Risk Assessment Act for the positions in the Directorate of EPCG and FU Supply has been completed. As for the remaining percentage, it is estimated that drafting of the Risk Assessment Act for EPCG Head Office and FU Supply will be completed by the end of the first quarter of 2019 year.

Normative for PPE and CPE is completed.

As part of IMS Project implementation in EPCG, following standards ISO 9001, ISO 14001 and ISO 45001, OHS experts and protection and rescue professionals from all organizational units were actively involved in development of the documented information (procedures) defining the basic processes related to OHS and protection and rescue in cases when those are in the jurisdiction of OHS. Eight procedures were the subject matter of the above mentioned activities and their development took place as planned. Thus, at the end of 2018, approximately 80% of documents was prepared while the remaining part is to be finished in line with deadlines envisaged under the project timeschedule.

Employees' training for safe work was carried out in 2018, in accordance with provisions of the normative acts (external and internal). Training and qualification testing was carried out by OHS experts amongst EPCG employees in line with the 2012 Training Program and on the basis of the authorization issued to EPCG AD by the Ministry of Labor and Social Welfare of Montenegro on March 16, 2017. The total number of EPCG employees who were trained for safe work during 2018 amounts to 73.

Medical check-ups were organized in power plants in line with the Risk Assessment Act, while for other organizational units, not encompassed by the Risk Assessment Plan, medical check-ups of employees at workplaces requiring special working conditions were organized and carried out in accordance with Job classification. Periodic medical check-ups are organized annually. If necessary, previous medical check-ups, as well as extraordinary specialist check-ups, are also carried out. The total number of EPCG employees who took medical check-ups in 2018 amounts to 466.

In the course of 2018, in accordance with the Law on Occupational Health and Safety, standards, technical regulations, instructions of the manufacturer, the provisions of the Ordinance on periodic inspections and tests of means of work as well as with internal acts of the Company, the means of work were tested to the end of determining whether necessary measures for safe and secure operation were applied or not.



Environmental protection

In order to protect the environment, EPCG continuously invests into development and modernization of equipment so as to contribute to reduction in pollutants' emission, adequate waste and waste water treatment and soil reclamation.

During 2018, the following was done in terms of regulations and the Company bylaws,

Six environmental protection procedures, to be adopted in 2019,

Preventive plans for all three power plants,

Annual environmental monitoring plan,

Annual plan for regular inspection of power plants,

Action plan for the environmental protection program,

EP and OHS Activity Report

An environmental monitoring analysis - information on pollutants' emissions into the environment based on the received results of the first measurements,

All measurements planned under the 2018 Annual Monitoring Plan

All inspections envisaged under the Annual plan for regular inspection of power plants

In the course of 2018, cooperation with state institutions continued through the provision of requested data. What should be emphasized amongst other activities is participation in the development of the 2019 – 2023 Plan, plants' visits respecting the Procedure for internal control and supervision in the field of environmental protection, transfer of waste from all parts of the Company, etc.



7. *Risk management*

The Company is committed to risk management improvement, so as to ensure additional guarantees to reach strategic and operating objectives via timely identification and prevention of risks, definition of effective measures and maximum efficiency in the area of risk management. The implementation of the Project of Integrated Quality Management System started in March 2018 and it will cover all strategic and operational risks within the company.

Objectives and methods in financial risk management

Business operations of the Company are exposed to various financial risks such as: market risk (including currency risk, interest rate risk, cash flow risk and cost risk), liquidity risk, cash flow risk and cost risk. Risk management in the Company is aimed at minimising all the potential negative impacts onto financial operations of the Company, under circumstances of unforeseeable financial markets.

Information about exposure to cost risks, credit risks, liquidity risks and cash flow risks

The Company has been exposed to the risk of change of electricity cost both at the local and foreign market, i.e. exchange. Given that EPCG is an active participant at the regional electricity market in its capacity of both the buyer and the seller, cost changes may significantly impact ongoing business operations. Portion of these risks is eliminated through conclusion of long-term agreements on electricity trading. New legal regulations imply that, since January 1, 2017, electricity cost for distribution customers is created based on the market cost taken from the referential exchange, at certain limitations. Taking into account the electricity price on the reference exchange which is higher compared to the one from the last year, at the moment there is no risk of electricity price reduction for distribution customers in the year of 2019.

Given that certain loan arrangements of EPCG are related to variable interest rate and EURIBOR, there is a certain interest rate risk in terms of debt with banks and other financial institutions. The Company has performed analysis of the exposure to risk from change of interest rates on a dynamic basis taking into consideration alternative sources of financing and refinancing, primarily for long-term obligations, and it undertakes relevant measures in order to obtain loan from banks under favourable conditions. EPCG has not been exposed to interest rate risk in terms of placement of cash resources having in mind that contracts define fixed interest rates.

Credit risk occurs with cash and cash equivalents, deposits placed with banks and financial institutions, receivables from legal and physical entities, including outstanding receivables and obligations undertaken. In order to ensure collection of receivables, EPCG has continuously applied coercive measures of collection. Also, by organization of prize contests and stimulation of regular payers via discount policy the Company tries to improve collection of receivables by application of positive measures.

Careful liquidity risk management implies maintenance of sufficient cash amount and securities that are being traded with, as well as adequate sources of financing through relevant amounts of loan obligations. Projection of total cash flows is done at the level of the Company which continuously follows liquidity so as to ensure sufficient cash for the needs of business operations.

Objectives and policies while managing financial risks, operating risks and uncertainties

The Chief Financial Directorate of the Company is responsible for risk management, under policies approved by the Board of Directors. The Chief Financial Directorate identifies, estimates and defines methods of protection against risks, in cooperation with all the organizational units. Continuous activities are taken in order to create and improve risk registry which will significantly help to reduce uncertainties in business operations.

Corporate philanthropy and sponsorship

As part of its PR policy, EPCG has been implementing sponsorships and donations (corporate philanthropy), in order to contribute to improvement of citizens' living quality, both at the national as well as at the local level. As far as activities implemented in this area are concerned, EPCG received two renowned awards: special recognition within the award for philanthropy 'Iskra', aimed at acknowledging and publicly emphasizing business entities and individuals who represent an example to others by their material and financial support, and who set standards that should be achieved when it comes to investment in general welfare as well as the award for corporate responsibility of the Chamber of Commerce of Montenegro. NGO 'Ozon' awarded EPCG with the 'Green star'.

Corporate philanthropy

EPCG granted important donations in 2018, whereof we will present the following:



On the occasion of 18th of September, the Day of Municipality Niksic, we donated a tissue processor in the value of 18.000 euros to PHI Special Hospital for Pulmonary Diseases "Dr Jovan Bulajic" Brezovik;



Donated a cytoscope worth 15.000 euros to the General Hospital Pljevlja;



Intubational bronchoscopes worth 20.000 euros donated to the Clinical Center of Montenegro;



EPCG has allowed for the second time in the last three years that twelve children from the Youth Center "Mladost" in Bijela participate in the basketball camp in Kolasin, organized by our celebrated basketball players Savo Đikanovic and Vlado Scepanovic;



Donation to the Gymnasium "Slobodan Skerovic" in Podgorica for the full equipping of a classroom with school inventory;



Traditionally, EPCG is a sponsor of the Club of voluntary blood donors EPCG, one of the best and most active clubs of its kind in Montenegro.

Sponsorships

During the year of 2018, EPCG sponsored many sports and cultural events. According to our intention to focus on national sports associations, we granted two strategic sponsorships, namely to Water Polo and Swimming Association of Montenegro and Basketball Association of Montenegro. Also, in order to contribute to development of sport at the local level, EPCG sponsored basketball and football club Sutjeska as well as the chess club Elektroprivreda. EPCG also sponsored University sports association, as the umbrella institution of student sport state-wide.

In the culture field, we supported two important music festivals in Niksic – Lake Fest and Bedem Fest, as well as music festivals Southern Soul in Ulcinj and City Groove in Podgorica. We also provided support to the unique International festival of puppetry in Podgorica. EPCG is the general sponsor of the series on the Prva TV “Myth Busters”, whereby our company, as a socially responsible company, supports the production of documentary-featured TV shows that preserve the national identity.

Also, through smaller funds and projects in 2018, our company has participated in many activities so that through efficient PR and marketing tools, sponsorship in the field of sports, culture and film, we contribute significantly to strengthening the brand of our company.



9. Capital investments

In 2018, the total capital investment into EPCG amounted to 14.321.186€. Majority of investments related modernization and new projects – 11.767.572€, while 1.872.987€ was spent on FU Genration's projects.

Below is the tabular review of capital investment of EPCG per Company part.

OVERVIEW CAPITAL INVESTMENTS INTO EPCG (€)			
Part of EPCG	2018	2017	Δ (2018-2017)
Development and Engineering	11.767.572	1.164.362	10.603.210
HPP Perucica	415.567	870.044	(454.478)
HPP Piva	786.302	1.831.125	(1.044.823)
TPP Pljevlja	668.193	1.251.666	(583.474)
Directorate FU Generation	2.925	2.883	43
FU Generation	1.872.987	3.955.718	(2.082.732)
FU Supply	313.608	118.371	195.237
Head office	367.019	598.371	(231.352)
TOTAL	14.321.186	5.836.822	8.484.364

Table No. 3: Overview of capital investments into EPCG (€)

*Most important investments in 2018
(implemented partly or entirely)*

Investments into Maljevac landfill,
Modernization of HPP Perucica – II phase
Investment into boiler for TPP "Pljevlja"



Financial reports and analysis of balance sheet and income statement

303.855.914€

Total operating revenues in 2018

+53.684.894€ more than in 2017

44.076.758€

Actual net result in 2018

The main reason for the 2018 profit lies in the higher hydro-production due to favourable hydrology, as well as costs rationalization and positive effects of electricity purchase and sale.

Income statement

Table No. 4: 2018 Income statement

EPCG INCOME STATEMENT FOR 2018		
	2018.	2017.
I OPERATING INCOME	303.855.914	250.171.020
1. Revenues from sales	302.672.463	249.094.988
2. Income from the use of own products, services and goods	-	-
3. Increase in inventory value of work in progress and finished products	-	-
4. Decrease in inventory value of work in progress and finished products	-	-
5. Other operating income	1.183.451	1.076.032
II OPERATING EXPENSES	272.813.315	272.552.469
1. Cost of goods sold	58.507.021	73.851.538
2. Cost of material	41.709.681	39.015.906
3. Wages, salaries, and other employee benefits expenses	20.833.751	19.890.455
4. Cost of depreciation, amortization and provisions	30.091.999	20.307.906
5. Other operating expenses	121.670.863	119.486.664
A. OPERATING RESULT	31.042.599	(22.381.449)
I FINANCIAL REVENUES	5.607.642	7.043.961
II FINANCIAL EXPENSES	1.683.834	2.547.096
B. FINANCIAL RESULT	3.923.808	4.496.865
I OTHER INCOME	16.849.739	19.010.966
II OSTALI EXPENSES	7.239.228	1.947.269
C. RESULT FROM OTHER ACTIVITIES	9.610.512	17.063.697
D. RESULT FROM OPERATING ACTIVITIES BEFORE TAX	44.576.919	(820.888)
E. NET PROFIT / LOSS OF DISCONTINUED BUSINESS OPERATIONS	-	-
F. RESULT BEFORE TAX	44.576.919	(820.888)
H. INCOME TAX EXPENSE	(500.160)	(127.239)
1. Current income tax expense	(3.724.738)	(724.332)
2. Deferred tax income / expense	3.224.578	597.093
I. NET RESULT	44.076.758	(948.127)
J. EARNINGS / (LOSS) PER SHARE	0,3359	(0,0072)
1. Basic earnings / (loss) per share	0,3359	(0,0072)
Number of shares	131.229.055	131.229.055

This year will be remembered by merging of TPP Pljevlja and Coal Mine thermal energy complex, thereby rectifying decades-long belatedness and, in line with tendencies and occurrences in the energy industry, heading to increase in level of vertical integration of our two generation segments.

The Coal Mine Pljevlja ended the last year with €6.58 million worth of profit. Successful business operations of the mine and record sales of coal to third parties make us expect payment of dividend from 2018 profits, which proved the correctness of the decision on acquisition.

Balance Sheet

Assets overview

Balance Sheet as of December 31, 2018 – assets overview

BALANCE SHEET AS OF DECEMBER 31, 2018 - ASSETS		
	31.12.2018.	31.12.2017.
A. SUBSCRIBED CAPITAL, UNPAID	3.287	3.287
B. NON-CURRENT ASSETS	984.814.914	891.612.649
I GOODWILL	-	-
II INTANGIBLES	1.128.379	1.453.586
III PROPERTY, PLANT, EQUIPMENT AND NATURAL ASSETS	586.816.242	552.762.155
1. Property, plant and equipment	586.816.242	551.626.376
2. Investment property	-	1.135.779
3. Natural assets	-	-
IV LONG-TERM FINANCIAL INVESTMENT	396.870.293	337.396.908
1. Investments in capital	324.001.864	287.772.755
2. Investments in capital valued by investment method	-	-
3. Other long-term financial investments	72.868.429	49.624.153
C. DEFERRED TAX ASSETS	174.202	155.083
D. NON-CURRENT ASSETS INTENDED FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS	1.489.225	710.850
E. CURRENT ASSETS	146.614.557	276.685.302
I INVENTORIES	6.580.614	6.843.759
II SHORT-TERM RECEIVABLES, INVESTMENTS AND CASH	140.033.943	269.841.543
1. Receivables	78.118.867	65.345.206
2. Receivables for overpaid income tax	-	2.645.545
3. Short-term financial investments	45.036.284	170.017.339
4. Cash and cash equivalents	15.157.618	15.399.969
5. VAT and accruals	1.721.174	16.433.483
F. TOTAL ASSETS	1.133.096.185	1.169.167.170

BALANCE SHEET AS OF DECEMBER 31, 2018 - LIABILITIES		
	31.12.2018.	31.12.2017.
A. CAPITAL	975.233.951	1.000.758.665
I BASIC CAPITAL	855.285.366	855.285.366
II SUBSCRIBED CAPITAL, UNPAID	-	-
III RESERVES	33.308.005	(326.158)
IV POSITIVE EFFECTS OF RESTATEMENT OF CAPITAL AND UNREALIZED PROFITS FROM FINANCIAL RESOURCES AVAILABLE FOR SALE	123.404.761	90.526.055
V NEGATIVE EFFECTS OF RESTATEMENT OF CAPITAL AND UNREALIZED LOSSES FROM FINANCIAL RESOURCES AVAILABLE FOR SALE	(8.826)	(8.826)
VI RETAINED PROFIT	48.602.081	55.282.228
VII LOSS	-	-
VIII OWN SHARES PURCHASED	(85.357.436)	-
B. LONG-TERM PROVISIONS AND LIABILITIES	73.559.706	74.435.154
I LONG-TERM PROVISIONS	28.027.576	17.681.336
II LONG-TERM LIABILITIES	45.532.130	56.753.818
1. Long-term loans	45.532.130	56.753.818
2. Other long-term liabilities	-	-
C. DIFERRED TAX LIABILITIES	33.223.896	31.674.766
D. SHORT-TERM PROVISIONS AND LIABILITIES	51.078.632	62.298.585
I SHORT-TERM LIABILITIES	51.078.632	62.298.585
1. Short-term financial liabilities	13.089.268	12.283.069
2. Liabilities from both assets held for sale and discontinued operations	-	-
3. Liabilities from business operations	25.913.969	21.809.177
4. Other short-term liabilities and PAI	10.518.549	26.960.047
5. Liabilities for VAT and other public revenues	477.039	1.232.886
6. Liabilities for income tax	1.079.806	13.406
II SHORT-TERM PROVISIONS	-	-
F. TOTAL LIABILITIES	1.133.096.185	1.169.167.170

Awards



Exceptional generation and financial results of EPCG in 2018, one of the most successful business years since incorporation of the Company, were acknowledged in the prestigious award granted to our company by the Commercial Chamber of Montenegro. Organizers of the “The Greatest 100 in Montenegro” Project also recognized good results of our company, therefore EPCG was amongst the awarded companies for the second consecutive year. In 2018, in the category of large companies, we have received the award of the earnings and profit leader, which yet again confirmed that, through socially responsible and economically viable business operation, we transparently contribute to economic and social of Montenegro.



11. / *Further development*

EPCG Investment Plan for 2019 amounts to

31,21 million euros

and it is primarily consisted of the projects implemented by the Directorate for Development and Engineering.

Primary objectives in 2019

Primary objectives of the Company in the forthcoming period will be focused on continuation of reconstruction and modernization of the existing plants (HPP Piva and HPP Perucica), thus extending their working life. To that end, signing of the €33 million worth contractual arrangement with the KfW (German Development Bank) is expected to take place.

Renewable Sources

Analysis of investment potentials of the new energy sources for the purpose of ensuring Montenegro's energy stability. Putting in place preconditions for implementation of the Project on Construction of Gvozd WP on the plateau of Krnovo.

Ecological rehabilitation

of the Unit 1 of TPP Pljevlja, planned to take place in the period to come, will make it possible for the Unit 1 to operate in future, in accordance with EU ecological standards.

Phase reclamation of Maljevac landfill

for the needs of TPP Pljevlja, would contribute to the continuous usage thereof, in compliance with legal regulations and industry standards.

The capital overhaule

of units U2 and U3 in HPP "Piva", after successfully implemented capital overhaul of the unit U1, will ensure reliable generation of electricity in the years to come.





Good energy

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