mans

Third Report on (Non) economic Viability of Construction of Unit II of the Thermal Power Plant Pljevlja

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2.INTRODUCTION

This Report is the third one published by the non-governmental organization MANS regarding project of construction of the new thermal power plant (TPP) in Pljevlja and includes activities undertaken by the Government of Montenegro during 2017 and early 2018. Previous two reports were published by MANS in February 2016[1] and February 2017[2].

Over the past years, project of construction of the new TPP Pljevlja has become one of the most controversial in the country, followed by sharp criticism by the civil sector and a part of the expert public that it is economically unprofitable and with far-reaching negative consequences for human health and the environment.

In mid-2017, MANS obtained data that show that the Electric Power Company of Montenegro (EPCG) for the first time seriously considered the option not to build the Second Block of TPP, and at the end of the same year, Czech company "Škoda Praha" terminated the contract for the construction of the Second Block because it had not managed to find a financier. Thus, EPCG turned to ecological reconstruction of the First Block and announced investments of close to € 50 million for these purposes.

In addition, what marked 2017 in the energy company was the announcement that a long-standing strategic partner Italian company A2A was leaving. The Government accepted A2A's bid for the purchase of its minority package of shares for a price of € 250 million. However, by the beginning of 2018 there was no information on how this financial arrangement will be implemented.

3. AGENCY PAVES THE PATH FOR CONSTRUCTION OF THE SECOND BLOCK

Beginning of 2017 was marked by the efforts of the Czech company Škoda Praha, with which half a year earlier a contract on the construction of the Second Block of TPP[3] had been signed, to find financiers for the project[4], while at the same time the Agency for Nature and Environment Protection accelerated the activities to issue approval for the Environmental Impact Assessment Study for construction of the new thermal power plant.

3.1. Agency gives a "green light" to the study, despite numerous remarks

Back in November 2016, the Agency launched a procedure for the adoption of the Environmental Impact Assessment Study for the construction of Thermal Power Plant II[5], carried out by a Slovenian consortium led by a company Esotech from Velenje[6]. It was almost identical to the Study[7] which a consortium led by the same company carried out for the needs of EPCG[8] four years earlier.

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1 Report on economic (un)profitability of construction of the Second Block of TPP, MANS, February 2016; link: http://www.mans.co.me/wp-content/uploads/2016/02/IzvjestajTE-Pljevlja.pdf

2 Second report on economic (un)profitability of construction of the Second Block of TPP, MANS, February 2016; link: http://www.mans.co.me/wp-content/uploads/2017/05/TEPljevlja2mn.pdf

3 Link:http://pvportal.me/2016/09/potpisan-ugovor-o-igradnji-drugog-bloka-te-pljevlja/

4 Article at Portal Vijesti under the title “I General Electric gradi Drugi blok” from February 06, 2017; link: http://www.vijesti.me/vijesti/i-general-electric-gradi-drugi-blok-923523

5 Environmental Impact Assessment Study for the construction of the Thermal Power Plant Pljevlja II, October 2016; public discussion was held in the existing Thermal Power Plant in Pljevlja on November 17, 2016

6 Apart from Esotech, the company Erico Velenje is also in the consortium

7 Environmental Impact Assessment Study for the construction of the Thermal Power Plant Pljevlja II, November 2012; this document was never publicly shown by EPCG, the NGO MANS received it thanks to the "whistleblower" from EPCG

8 The consortium consisted of Erico Velenje and Premogovnik Velenje

At the end of 2016, **in first report** of the Study Evaluation Commission, a number of remarks were expressed and EPCG was asked to update it[9]. **The Commission made as many as 83 individual remarks.**

The Commission asked EPCG to develop a study on the health impact

Some of the most distinctive remarks raised by the Evaluation Commission of the Environmental Impact Assessment Study for the construction of the Second Block of Thermal Power Plant in Pljevlja are:

- there are no statistical data showing that private and joint fireboxes are the largest source of air pollution in town;
- project description is general and incomplete parameters and characteristics of the cauldron, the quality of the propellant fuel and the planned technology are listed;
- it is stated that a new 254 MW block will be supplied with coal from the Pljevlja Basin, however, data on exploitation reserves from the Pljevlja and Maoča basins are listed;
- location Potrlica for disposal of byproducts from the TPP is in contradiction with the Detailed Spatial Plan, where disposal is planned in the area of Šumani;
- the construction of the Second Block will regulate the electricity deficit in the country, and then it states that the electricity will be used for export;
- for the content of radionuclides in the vicinity of Pljevlja, data from 10 years old and more were used and new analyses are necessary;
- provide alternatives to gas treatment: dust extraction, desulphurisation and NOx reduction;
- conduct a health study and assessment of the impact on human health using known evaluation methodologies and published studies.

In February 2017, the Commission evaluated the updated Environmental Impact Study, submitted by the EPCG in the meantime. Although it had previously made numerous remarks, of which EPCG did not accept some at all, the Commission still proposed granting consent to the document[10] in its final report.

Thus, **EPCG did not conduct health studies and impact assessments on human health, originally requested from it.** According to EPCG, such study exceeds the scope of the Study itself, and its drafting, from the aspect of representativeness, should take into account the activities of other economic entities in Pljevlja, primarily the Coal Mine Pljevlja and individual fireboxes.

In addition, **there is an open issue whether the coal for construction of the Second Block would be used from Maoča bearing, as well as where the new landfill for disposal of by-products would be located.** In order to solve the air pollution, it is stated that the ecological rehabilitation of the existing thermal power plant would be done first, and the newly constructed Second Block of TPP would be put into operation, while the district heating of Pljevlja would be implemented simultaneously.

On the basis of such report from the Commission, the Agency for Nature and Environment Protection gave its consent to an updated Environmental Impact Assessment Study for the construction of Thermal Power Plant II in February 2017[11], by which EPCG was obliged to obtain a permit for the construction of a new

[9] Evaluation Report on the Environmental Impact Assessment Study for the construction of the Thermal Power Plant Pljevlja II, Kalušići, cadastral municipality Ilino brdo, Municipality of Pljevlja, November 29, 2016; Decision to establish the Commission was brought by the Agency for Nature and Environment Protection on November 11, 2016, number 02: UPI-1807/14, and it consisted of: Emir Redžepagić, the chairman, and members Milutin Ostojić, Adis Balota, Svetozar Vušović, Radomir Džarić, Jugoslav Žic, Miodrag Babić, Izet Dervišević, Dušan Pavićević, Emir Vesković, Slavko Radonjić, Gordana Đukanović and Boris Nišavić; responses from the Agency for Nature and Environment Protection on the basis of the Law on Free Access to Information, MANS numbers: 16/106032-106035, December 26, 2016

[10] Report on the assessment of the updated Environmental Impact Assessment Study for the construction of the Second Block of Thermal Power Plant Pljevlja, Kalušići, Cadastre Municipality Ilino brdo, Municipality of Pljevlja, February 20, 2017; responses from the Agency for Nature and Environment Protection to MANS on the basis of the Law on Free Access to Information, MANS numbers 17/109829-109830, March 30, 2017

[11] The Agency for Nature and Environment Protection number 02-UPI-1807/36 , February 22, 2017, which gives its approval to the updated Environmental Impact Assessment Study for the construction and exploitation of the Second Block of Thermal Power Plant Pljevlja, Kalušići, Cadastre Municipality Ilino Brdo, Municipality of Pljevlja;

thermal power plant within two years. This paved the way for the Czech company Škoda Praha to initiate the procedure for obtaining a building permit and start building a new TPP in Pljevlja.

3.2. MANS files a lawsuit to the Administrative Court

In April 2017, **MANS filed a lawsuit to the Administrative Court of Montenegro for the annulment of the Decision of the Agency for Nature and Environment Protection**, which had given consent to the newly developed Environmental Impact Assessment Study for the construction of Thermal Power Plant II.[12]

In the lawsuit, MANS pointed out that the Agency had not allowed the stakeholders to access the updated Study for which consent had been given, thus preventing them from submitting remarks and suggestions to this document, and violating the Law on Environmental Impact Assessment.

By the beginning of 2018, the court proceeding has been pending.

4. EPCG REQUESTS AN INTEGRATED LICENSE FOR THE FIRST BLOCK

During 2017, EPCG worked intensively on obtaining an integrated license for the work of the First Block of Power Plant in Pljevlja, but by the end of that year it failed to obtain it, so the entire procedure was shifted to 2018. However, documentation submitted by the EPCG to the Agency for Nature and Environment Protection, on the basis of which an integrated license should have been issued, for the first time indicated that the state energy company seriously considers the option not to build the Second Block of TPP.

4.1. EPCG considers for the first time not to build the Second Block

EPCG submitted a request for the issuance of an integrated license for operation of the existing thermal power plant at the end of December 2016, and provided it with the relevant documentation.[13] However, the Agency for Nature and Environment Protection requested a few days later from the EPCG to complete the documentation and set the deadline of six months to do so.[14]

EPCG stated that TPP Pljevlja would reduce the work to 20,000 hours in the period from 2018 until the end of 2023, which is in line with the decisions of the Energy Community on limiting the greenhouse gas emissions[15]**.** Since TPP Pljevlja works around 7,000 hours a year, this means that in the next six-year period its work would be halved (from around 42,000 hours to a total of 20,000 working hours).

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[12] Lawsuit by NGO MANS from Podgorica against the Ministry of Sustainable Development and Tourism, April 19, 2017, lawsuit number 2337/17

[13] Request for issuing of an integrated license (number EPCG 10-00-70262 from December 22, 2016), submitted to the Agency for Nature and Environment Protection

[14] Memo from the Agency for Nature and Environment Protection number 02 UPI-2231/2 from December 28, 2016; the Agency requested that the EPCG further submit the Act on the Right to use natural resources and the Plan of accident prevention and restriction of their consequences as well as the opinion of the competent authority whether the Decision number 2016/19/MC-ENC of Ministerial Council of the Energy Community is legally binding and integrated into the legal system of the State of Montenegro

[15] Decision No 2016/19/MC-ENC of Ministerial Council of the Energy Community D/2016/19/MC-EnC: on authorizing exemption of plants from compliance with the emission limit values set by Directive 2001/80/EC of the European Parliament and of the Council

However, although half the work is projected**, EPCG states that it will take around 1.6 million tons of coal annually for the work of TPP Pljevlja, which is the consumption at the current level,** that is, under the conditions in which the plant operates around 7,000 hours a year. Also, in the coming years, electricity generation is planned at the level of 1,400 gigawatts per year, which is approximately in line with production as in the previous years.[16]

Due to the TPP work the environment significantly disturbed
In description of the current situation, in its request for the issuance of an integrated license, EPCG announced that the work of the TPP Pljevlja, whose main activity is the production of electricity and heat from coal, results in larger quantities of flue gases containing harmful substances.[17]

Flue gases are discharged into the atmosphere through a 250-meter-high chimney, and in 2009 EPCG installed an electro-filtering plant to clean gas from solid dust particles.[18] This facility can meet the requirements of the legislation, but the emissions of other pollutants exceed the permissible values, which implies the construction of a flue gas desulphurisation plant (DeSOx) and the construction or reconstruction of the flue gas denitrification system (DeNox).

Due to the work of TPP Pljevlja, wastewaters that are usually not purified but discharged into the Vežišnica river, Paleški Potok, and indirectly Ćehotina river, are formed. Data on water quality are very old and date from 2012 and even 2006. EPCG announced that construction of a wastewater treatment plant is needed.

It is pointed out that one of the largest ecological problems is the landfill of slag and ash, which is transported to the Maljevac landfill. Land and ash tests from the Maljevac landfill were made in 2006, while recent surveys were conducted in 2011 and 2014. Soil analyses showed that waste was harmless, but it was indicated that heavy metal analyses had not been carried out.

Maljevac landfill was built far back in 1982, in the riverbed of Paleški creek, at a distance of about two kilometers from the TPP, and seven kilometers from Pljevlja. In first and second phase it was raised to an altitude of 813 meters and, according to earlier announcements, it was supposed to be its highest point. However, EPCG later increased the embankment to an altitude of 832 meters. Below the landfill there is a collector through which the waters of the Paleški creek are conducted, and during 2014, the stabilization of the landfill was carried out.

The annual consumption of coal of 1.6 million tons in TPP Pljevlja remains around 320 thousand to 480 thousand tons of ash and slag per year, which depends on the quality of coal. In the period between 1982 and 2016, between nine and ten million tons of ash was deposited in the landfill Maljevac. TPP Pljevlja uses coal from the Koplica coal mine, which is delivered to the power plant by the trucks, and the Request for obtaining an integrated permit states that there is no established environmental management system in accordance with the ISO 14000 standards.

EPCG estimated costs of investments that encompass the period until the end of 2023, when the existing TPP Pljevlja would cease to work, at close to 86 million Euros.[19]

Thus, in order to continue the work and recultivation of the Maljevac landfill, 18 million were spent, 28 million for the construction of a new ash and slag landfill, and additional 26 million for the construction of a DeSox DeSox and DeNox reconstruction. In addition, the wastewater treatment system would cost 2.8 million, as well as the reconstruction of the cooling tower, reconstruction of the internal ash and slag transportation system would amount to 7.8 million, while 560 thousand Euros would be spent to remove asbestos[20].

[16] Report on the state of the energy sector of Montenegro in 2015, prepared by the Energy Regulatory Agency; link: http://www.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/12/1285-8335-00-72-16-31.pdf

[17] Most significant being S02 (sulfur dioxide), NOx (nitrogen dioxide), CO2 (carbon dioxide) and powdery substances

[18] They represent the floating ash that passes through the electro filter and exits with flue gas

[19] Investments in the amount of €85,960,000 are planned

[20] Asbestos is a natural mineral used in the production of heat and electrical insulation, and due to its harmful effects on health, its use is prohibited in many countries; link: https://hr.wikipedia.org/wiki/Azbest

R.B	PROJECT TITLE	IMPLEMENTATION PERIOD	COSTS
1.	Continuation of work of the Maljevac landfill and final recultivation	2016-2023	18,000,000
2.	Construction of a new landfill and an external transport system	2017-2021	28,000,000
3.	Construction of DESOx facility	2018-2021	17,000,000
4.	Reconstruction of DeNOx	2018-2021	9,000,000
5.	Waste water treatment system	2019-2021	2,800,000
6.	Asbestos removal	2020-2021	560,000
7.	Reconstruction of the cooling tower	2020-2021	2,800,000
8.	Reconstruction of the internal ash and slag transportation system	2019-2021	7,800,000
			85,960,000

Table 1: Planned investments in relation to the environment for the period until the end of 2023 and termination of work of the Pljevlja TPP

Regarding the announced investments, the EPCG indicated that the ash and slag will be disposed on the Maljevac landfill by 2021, when its closure is planned, and that the new landfill will be built on the Potrlica site, from which coal is now being dug for the needs of work of the power plant. This solution is not in line with earlier announcements from EPCG that a new landfill will be built at the location of Šumane, which the energy company bought from the coal mine Pljevlja in 2010, with the aim of being a new location for waste disposal.[21]

EPCG estimated the costs of closing all facilities of the thermal power plant to € 17 million. However, the time when the thermal power plant finally closes is directly related to whether the Second Block of TPP would be built or not, thus, it presented two scenarios.

In a scenario in which the Second Block is not built, the work of the existing TE will be extended until at least 2030, while the closure of all facilities will be done in the next ten years, i.e. by 2040**. If the Second Block is built, then the closing of facilities would begin to take place only from 2060.** Since the European Union is demanding that all thermal power plants be shut down by 2050 due to climate change, it has recently been announced that this will probably have to be done and much earlier, and it is unclear why the EPCG did not take this aspect in consideration at all.

ACTIVITY	OPTION I: TPP II built	OPTION II: TPP II not built	COSTS
Decomposition planning	2058-2060	2030-2033	0.5
Insurance measures	2060	2034	0.5
Dismantling	2061-2065	2035-2040	5
Supervision	2061-2065	2035-2040	1
Decontamination	2064-2065	2039-2040	2
Waste management	2065	2040	3
Land remediation	2063-2065	2037-2040	5
			17 million

Table 2: Closure of thermal power plants estimated at €17 million

The costs of closing the thermal power plant facilities include dismantling works, supervision, insurance measures, decontamination, land remediation...

[21] Report on the operation of EPCG for 2010, May 2011

Different figures on investments in the Environmental Protection Program

Environmental Protection Program for the period 2012-2016[22] was also submitted to the Agency for Nature and Environment Protection as part of the documentation submitted by EPCG for obtaining an integrated permit.

However, this document presents different data regarding the amount of certain investments planned for TPP Pljevlja. Thus, amount of €3.1 million for wastewater treatment is stated, as opposed to 2.8 million, as indicated in the Request for obtaining an integrated license.

It is also estimated that the installation of the facility for flue gas desulphurization and denitrification would cost 20 million Euros, instead of 26 million, as stated in the Request. In addition, the Environmental Protection Program states the location of Šumane, not Potrlica, as the site for the construction of a new ash and slag landfill.

4.2. Negotiations with Škoda Praha failed

After, for more than a year, Škoda Praha failed to find a financier for the construction of the Second Block, **the Government and EPCG officially announced in December 2017 that the agreement on the construction of a new thermal power plant in Pljevlja with the Czech partner would be terminated.[23]**

At the same time, the Government announced that the EPCG would start an urgent ecological reconstruction of the First Block of TPP, for which at least 40 million Euros will be provided, so that the existing thermal power plant can meet strict ecological criteria in accordance with European regulations and continue its work after 2023 as well.

Photo *1: Government officials announce the decision to terminate the contract*

Let us remind, in mid-2015, EPCG chose the offer of Škoda Praha as the most favorable for the construction of the Second Block[24], and proposed a price of €321.7 million. Value added tax[25] would not be applied to the project. Total loan repayment period was agreed at 15 years, including three-year grace period, with an interest rate based on a margin of 2.5% above the 6 month Euribor rate.

Škoda Praha's offer was based on the turn-key system, i.e. it included design, engineering, procurement, delivery, construction, commissioning, testing and necessary activities until handing over the facility to EPCG.

4.3. EPCG changes plan and projects operating of the First Block by 2043

[22] Environmental Protection Program of EPCG for the period 2012-2016, March 2012

[23] Information on the website of the Government of Montenegro under the title „Donijeta odluka o okončanju saradnje sa češkom kompanijom Škoda Praha na Projektu izgradnje Bloka II TE Pljevlja“, December 27, 2017; link: http://www.gov.me/vijesti/180092/Donijeta-odluka-o-okoncanju-saradnje-sa-ceskom-kompanijom-skoda-Praha-na-Projektu-izgradnje-Bloka-II-TE-Pljevlja.html

[24] More on the offer in the Report on economic (un)profitability of construction of the Second Block of TPP, MANS, February 2016, link: http://www.mans.co.me/wp-content/uploads/2016/02/IzvjestajTE-Pljevlja.pdf

[25] At the beginning of 2015, the Parliament of Montenegro adopted amendments to the Law on Value Added Tax, proposed by the Government, which exempts payment of value added tax for the supply of products and services for the construction of an energy facility for the production of electricity with an installed capacity of more than 10 MW; Law on Amendments to the Law on Value Added Tax; Official Gazette of Montenegro number 9/15; link: http://www.sluzbenilist.me/PravniAktDetalji.aspx?tag=%7B1AF91BFB-209F-4028-BB17-77B247513FD5%7D

In the updated documentation submitted to the Agency for Nature and Environment Protection at the end of 2017 regarding the Request for obtaining an integrated license for the work of the First Block of TPP in Pljevlja, **EPCG projected operating of the existing thermal power plant until 2043**, when its dismantling would begin[26].

EPCG would invest over €61 million[27] in the period from 2019 to 2022 in the ecological reconstruction of the First Block and related projects. Most of this amount, or **€40,460,000, would be spent for the ecological reconstruction of the First Block, while additional €19,315,000 Euros would be allocated for the continuation of the use and phase recycling of the Maljevac landfill.**

R.B	PROJECT TITLE	IMPLEMENTATION PERIOD	COSTS
1.	Draft Project of ecological reconstruction and Environmental Impact Assessment Study	2018	750,000
2.	Revision of the Draft Project and obtaining consent for the Environmental Impact Assessment Study	2018	200,000
3.	Development of the Main Project and implementation of ecological reconstruction of the First Block of TPP, revision of the Main Project and expert supervision	2018-2022	40,460,000
4.	Project of continuation of use and phase recultivation of Maljevac landfill	2017-2024	19,31,000
5.	Preparation of technical documentation for disposal of combustion byproducts from the TPP on a new location	2018-2019	550,000
6.	Construction of temporary landfill	2018	100,000
			61,375,000

Table 3: Planned environmental investments for the period until the end of 2024 and continuation of work of the Pljevlja TP

It is unclear whether the expenses for ecological reconstruction are underestimated, given they are not presented transparently, that is, they indicate only their total sums, without specific details for individual investments. In addition, EPCG did not project any costs for the construction of a new landfill for ash and slag disposal, which had previously been estimated at €28 million.

In January 2018, the Agency for Nature and Environment Protection invited public to submit comments on the Draft Integrated Permit for Operation of the First Block of TPP Pljevlja. [28]

In remarks submitted to the Agency[29], MANS pointed out that the investment costs were not transparent, that it was unclear why the costs for the construction of new ash and slag landfills were not included, as well as that the actual pollution in Pljevlja was not shown in real terms and there were no clear parameters of operation efficiency of the existing thermal power plant after its ecological reconstruction.

By the end of February 2018, it was unknown whether the Environmental Protection Agency issued the final decision on an integrated license for the work of the First Block and which remarks it accepted.

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[26] A program of measures for adjusting the operation of the existing facility or activities to the prescribed conditions, a tabular presentation, which is part of the Request for issuing an integrated license for the operation of the facility TPP "Pljevlja" I and carrying out the activities of electricity and heat production at the Kalušići Pljevlja site, delivered by the EPCG to the Agency for the Protection of Nature and the Environment on 3 October 2017, number UPI-101-1556/1-02-2231/6; Documentation submitted to MANS via email by the Agency for Nature and Environment Protection

[27] The exact amount is €61,375,000

[28] Public Invitation published on January 15, 2018 on the website of the Agency for Nature and Environment Protection; link: http://www.epa.org.me/index.php/agencija/vijesti/685-izraden-nacrt-integrisane-dozvole-operatera-elektroprivreda-crne-gore-ad-niksic

[29] General remarks by the NGO MANS on the Draft Decision on issuance of an integrated license to the operator Electric Power Company of Montenegro AD Nikšić for operation of the entire facility of TPP "Pljevlja" from January 30, 2018, sent to the Agency for Nature and Environment Protection via email

5. ITALIAN A2A INITIATED PROCEDURE FOR LEAVING EPCG

After seven and a half years in EPCG, that is, in July 2017, the Italian A2A began the process of leaving the Montenegrin energy company, which implies that the Government of Montenegro has the right to pre-purchase its share package for a price of 250 million Euros, and it can be paid in seven annual installments.

A case study of partnership between EPCG and A2A is given below.

5.1. Case Study: "Failed strategic partnership between EPCG and A2A"

Italian company A2A entered the Electric Power Company of Montenegro (EPCG) in 2009, when it became the second largest shareholder for the price of over € 430 million. Around € 192 million were paid to the Government of Montenegro and EPCG from this amount, and the rest was paid to the privatization funds and minority shareholders.

The state of Montenegro remained a majority shareholder, and A2A was given a five-year right to manage the company, with the possibility to acquire majority ownership after that, if it fulfilled certain conditions. One of them was to make EPCG a profitable company, with a profit of € 100 million after five years.

Photo 2: From the signing of the EPCG Contract on September 3, 2009

However, the Italian partner did not reach the goals it was obliged to, and most of the money entered into EPCG through recapitalization, was in Prva banka for years, which is majority owned by the brother of the former Montenegrin Prime Minister Milo Đukanović. At the time of recapitalization of the EPCG, Prva banka was in financial troubles and thanks to the money brought by the Italian company, its solvency was secured and it was saved from bankruptcy.

Because of that, there have been no significant investments into EPCG until 2018, although this was the main reason why the Government of Montenegro initiated its recapitalization. Also, management of the Italian A2A concluded suspicious consulting contracts with its related daughter companies in Italy, which led the Montenegrin prosecution to launch an investigation.

5.1.1. Pre-privatization period: Just prior to the privatization, EPCG generated annual income of around € 260 million; the value of its property, facilities and equipment amounted to around € 944 million, and at the end of 2007, its accumulated loss was significant and at the level of 58.3 million.[30]

During 2007, the Government of Montenegro decided to take over some of the company's debts and, on this basis, increase its share capital. It was about debts based on foreign loans in the amount of € 86.5 million, which Montenegro raised before 2000 for the construction of energy facilities in the country.[31] In

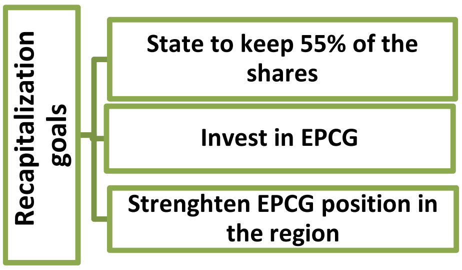
[30] Auditor's report on the financial statements of Electric Power Company of Montenegro AD Nikšić, published on the website of the Securities Commission; link: http://www.scmn.me/fajlovi/EPCG200712R.pdf
[31] Auditor's report on the financial statements of Electric Power Company of Montenegro AD Nikšić, published on the website of the Securities Commission; link: http://www.scmn.me/fajlovi/EPCG200712R.pdf

this way, EPCG's capital was increased to € 991.8 million[32], and it was clear that the Government of Montenegro was trying to “clean” the company from debts prior to privatization in order to sell it better.

In 2007, the Government took over 86.5 million of the EPCG debt

5.1.2. In 2008, the Government launches privatization of EPCG: in July 2008, the Government’s Privatization Council initiated the recapitalization procedure of EPCG[33], which was in line with the privatization plan for that year[34]. At the same time, the Council formed the Tender Commission, whose task was to prepare the privatization procedure.[35]
A few months later, a privatization advisor was hired, Zagrebačka banka UniCredit Markets & Investment Banking. [36]Zagrebačka banka is a part of a large banking group UniCredit S.P.A.[37] from Italy, and it soon turned out that the EPCG buyer is also from Italy.

One of the conditions for recapitalization was for the State to keep 55% of the shares in the EPCG after the conducted procedure. In the period of 15 months, the legal advisor was to find a strategic investor to implement EPCG's investment and development plan, introduce modern technology and management methods to the company, and strengthen its position in the regional market. The legal advisor was authorized to connect with potential investors and organize their visits to the company, as well as to collect interest letters in order to have as many investors as possible to apply on the tender.



According to the agreement, the legal advisor from Zagreb received a fixed fee of € 450,000, while the performance fee was defined at 0.49% of the total value of the transaction (the performance fee is paid only if the recapitalization of the EPCG is completed successfully and the contract is signed).

At the beginning of 2009, EPCG and the Government signed an agreement on mutual relations which defined that the remuneration to advisor would be paid by the EPCG and the Government according to the value of the transaction. [38]

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[32] The decision to increase the capital of the Shareholders' Assembly of Electric Power Company of Montenegro AD Nikšić number 10-00-12201, June 29, 2007 and i Decision on recgistering the issue of shares based on the conversion of debt into the share capital of the Securities Commission number 02/6e-36/4-07, July 23, 2007; after the decision on the increase, the capital amounted to €991,884,418.73

[33] Decision to initiate the recapitalization procedure of Electric Power Company of Montenegro AD Nikšić number 01-433, July 09, 2008

[34] Decision on Privatization Plan for 2008, adopted by the Government of Montenegro on March 6, 2008

[35] Decision on the appointment of the Tender Commission for the implementation of the recapitalization procedure of Electric Power Company of Montenegro AD Nikšić number 01-434 dated 9 July, 2008; the Tender Commission was appointed by the Decision of the President of the Council Vujica Lazović, and it consisted of: president Vujica Lazović, Deputy Prime Minister for Economic Policy, and members:Branimir Gvozdenović, Minister for Economic Development, Branko Vujović, Director of the Agency for Restructuring Economy and Foreign Investment, Ivan Brajović, Member of the Parliament of Montenegro, Rajko Kovačević, Member of the Parliament of Montenegro, Predrag Bošković, Member of the Parliament of Montenegro, Srđan Kovačević, President of the Board of Directors of EPCG, Ranko Vojinović, Executive Director of EPCG, Milorad Katnić, Assistant to the Minister of Finance and Mili Čanović, Assistant to the Minister for Economic Development

[36] Contract on providing consulting services to advisors in the process of recapitalization of Electric Power Company of Montenegro AD Nikšić concluded on 15 October 2008 between Electric Power Company of Montenegro and Agency for economic restructuring and foreign investments, and Zagrebačka banka DD Unicredit Markets & Investment Banking

[37] Wikipedia link: https://en.wikipedia.org/wiki/UniCredit

5.1.3. Tender for recapitalization published in 2009: In February 2009, a tender for the sale of part of the existing shares and recapitalization of the EPCG was announced.[39]

Specifically, it was a combined privatization model that allowed the investor to buy part of the existing shares owned by the State of Montenegro and buy as many newly issued shares of EPCG[40], which together accounted for around 18.3% of EPCG's total capital. The investor was obliged to offer the purchase of minority shares at the price of the share to be realized on the tender.

State owned 70.6% of the shares

At the time of tendering, EPCG managed one thermal power plant, with two large and seven small hydropower plants. 70.6% of the shares of EPCG were owned by the State of Montenegro, while other shares were owned by investment funds and other legal entities and natural persons (minority shares).

EPCG's core capital amounted to € 991,884,418 and it was divided into 113,887,961 shares of the nominal value of the individual share of €8.7. Total number of employees at the end of January 2009 was 2,979 employees, and a legal separation of the Functional Unit Transfer to a Private Company was underway, which was not the subject of the tender.

The tender stipulates that besides the purchase contract, the investor will conclude with the Government a contract on the EPCG management which will provide it with significant amount of management rights, and after five years it can acquire the right to buy additional shares and achieve majority ownership if it fulfills the investment and other defined indicators. It was also stated that after the end of the tender, the construction of hydroelectric power plants on Morača will be decided.[41]

The investor was asked to meet financial conditions, which implied that it had received more than € 250 million in the previous year, had assets of more than € 500 million and a credit rating of at least "BBB minus" determined by the rating agency Standard & Poors or Fitch, or "BAA3" by Moodys.

When it comes to technical conditions, the investor was required to have produced or distributed at least 1,500 gigawatts of electricity in the previous year, and the bidders could participate in the tender by submitting the offer as part of the consortium.

Although the deadline for submission expired by the end of April[42], it was extended on two occasions[43], thus, at the end of July 2009 the Tender Commission opened bids[44]. Four companies applied for the tender:

[38] Agreement on regulating mutual obligations regarding the Contract on providing consultant services to advisors in the process of recapitalization of the Electric Power Company of Montenegro AD Nikšić, March 20, 2009, concluded between the Electric Power Company of Montenegro and the Government of Montenegro

[39] Public invitation for participation in the tender for the sale of part of the existing shares and recapitalization of the EPCG as of February 2, 2009; link:http://www.gov.me/biblioteka/tenderi?AccessibilityFontSize=150%3Fquery%3DUnesite+pojam%3A

[40] The qualified investor was offered to acquire 11,457,357 existing shares, and the right to subscribe 11,457,357 newly issued shares of EPCG at the same time

[41] Tender for the construction of hydroelectric power plants on Morača failed in 2011, after no offers were submitted

[42] Deadline for submission of bids was April 30, 2009

[43] Tender was initially extended until June 1, 2009, and then until July 17, 2009

Inter Rao from Russia, Nord Trondelag from Norway, A2A from Italy and Consortium Golden Energy One Holding Limited & Public Power Corporation from Greece.

In the beginning of August 2009, the Tender Commission announced that it had rejected the offer by the Greek consortium as incompatible with the tender terms.[45] The consortium offered the highest price of €11.1 Euros for a single share, which would cost around € 254.3 million[46] for the package of shares of the State and recapitalization of the EPCG. According to the explanation, Greek consortium set additional conditions, such as obtaining a license for the construction of a 650 MW thermal power plant in Pljevlja (Maoče) and exploitation of lignite ore in Maoče before conclusion of contract.

At the same time, the tender commission accepted the offer by the Italian company A2A, which was confirmed[47] by the Privatization Council and decided to enter into negotiations to finalize the contract. The offered price of the share was € 8.4, which is a total of € 192.4 million, or 96.2 million for the Government and EPCG.

A2A offered € 192.4 million for 18.3% of EPCG shares

The Privatization Council announced then that A2A had submitted a Social Program which implies keeping the existing collective agreement, training program for employees, directing part of the profit to the payment of additional wages, and payment of severance pay in case of voluntary termination of work in the amount of 20 thousand Euros in first year.

The government presented A2A as a respectable investor

When it announced it would accept A2A's bid to buy shares in the EPCG, the Government stated it was a company that had been formed in January 2008. It is one of the largest companies in Italy in the field of local production, distribution and sale of electricity, distribution and sale of gas, sale of heat, treatment and disposal of waste.

The company is headed by a group of approximately 8.5 thousand employees, and its capital is €1.6 billion. Its main shareholders are the Municipality of Brescia and the Municipality of Milan with 27.5% of the share, so together they had 55% of the shares.

5.1.4. Italian A2A joins EPCG in the fall of 2009: At the beginning of September 2009, EPCG Agreement was concluded, related to the purchase, registration of shares, shareholder agreement and management contract[48]. Total price for the newly issued shares of the EPCG amounted to 96,241,798 Euros, or € 8.4 per share, and the same price was for the share of the Government of Montenegro.[49]

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[44] Press release by the Tender Commission for Implementation of the Recapitalization Procedure of EPCG, July 17, 2009
[45] Press release by the Tender Commission for Implementation of the Recapitalization Procedure of EPCG, August 3, 2009
[46] Article at Elektroenergetika Portal, August 5, 2009; link: http://www.elektroenergetika.info/balkanceli.php?sifra=1565&strana=
[47] Press release from the session of the Privatization Council, August 4, 2009
[48] EPCG Contract, which includes the Sales Contract, the Share Acquisition Contract, the ShareholdersAgreement, the Management Contract related to the sale of shares and the recapitalization of Electric Power Company of Montenegro AD Nikšić, from September 3, 2009, concluded between the State of Montenegro as a seller and A2A SpA as an investor; on behalf of the Government of Montenegro, EPCG contract was signed by the Deputy Prime Minister Vujica Lazović, and on behalf of A2A Renato Ravaneli
[49] Total number of shares is 11.457.357 shares

Considering that during tender implementation, Functional Unit Transfer to a Private Company was separated, EPCG share capital at the moment of signing the contract was lower than when the tender was launched and amounted to € 871,037,903.32[50], while the nominal value of the share was lower and it was €7.64.

At the end of September, EPCG increased the value of the company's share capital on the basis of recapitalization for the amount of € 87,628,157, so the capital was increased to € 958,666,061.[51] EPCG then decided that the amount of € 8,613,641, which was the difference in the nominal value of the shares of €7.64 and the A2A's purchase price of €8.4, is not included in the share capital, but that it is accounted for as an emission premium.

A2A paid €223.6 million for minority shares

In May 2009, while the tender for recapitalization of the EPCG was still in progress, Italian A2A bought 17,281,827 shares of EPCG through a block transaction, which cost €122,700,971, i.e. at a price of €7.1 per share[52]. Through this block transaction, shares from the portfolio of privatization and mutual investment funds were traded.

At the end of September 2009, A2A acquired another €12,022,307 shares of minority shareholders for which it paid €100,987,379, that is, €8.4 per share[53]. These data clearly show that A2A purchased a total of 52,218,848 shares from the State of Montenegro and through recapitalization of the EPCG, as well as from privatization funds and minority shareholders, for which it paid €416 million.

However, by the end of 2009, A2A had a total of 54,785,075 shares in the EPCG, i.e. a total of 43.7% of ownership, which means that it bought another 2.566.227 shares on the stock exchange, for which, according to the price of shares on the stock exchange, is realistic to assume that it allocated an additional 20 million.

By the end of 2009, A2A had 43.7% of the share capital in the energy company, the State of Montenegro had 55% of the capital, and the rest belonged to other natural and legal persons.

SHAREHOLDERS	No OF SHARES	EQUITY
State	68,939,925	55,00 %
A2A	54,785,075	43,70 %
Other legal persons	38,536	0,03 %
Natural persons	1,525,857	1,21 %
Custody Account CK and HA	55,925	0,04 %
TOTAL	**125,345,318**	**99,98 %**

Table 4: Capital structure at the end of 2009; source: EPCG Business report

5.1.5. Italian A2A committed to meet 20 indicators: Italian A2A EPCG committed to meet 20 investment and operational indicators in five years, during which it would manage the company.

Based on investment and operational indicators, 100 points was possible to collect. EPCG Contract stipulated that A2A must collect 80 points, of which a minimum 8 points on the basis of profit indicators, in order for the Government to issue a positive opinion, which was a condition for buying additional shares and becoming the majority owner of the energy company.

50 Share capital was split into 113,887,961 shares
51 Decision on increase of share capital number 10-00-11648 from September 28, 2009; By decision, the share capital was divided into 125,345,318 shares of individual nominal value of €7.64
52 Business report of Electric Power Company of Montenegro AD Nikšić for 2009
53 Business report of Electric Power Company of Montenegro AD Nikšić for 2009

The highest number of points had three key indicators: losses in distribution network, which by the end of 2014 should have amounted to 11%, the expected profit, which until that year should have been € 100 million and the level of electricity consumption with 100% of charge.

However, profit targets were determined with two assumptions, that the method of defining the price of electricity would not be significantly changed in relation to the existing situation, and that the contracts for electricity supplying from industrial consumers of the Aluminum Plant Podgorica and Željezara Nikšić would soon expire, and that the new contracts with them be established on a market basis. In this way, the Italian company could in practice call for the profit indicator not to be met due to objective difficulties.

Other indicators related to the installation of new meters, increasing the strength of existing EPCG manufacturing facilities, reducing the number of unplanned interruptions in the network, establishing a new charging system...

INDICATOR	VALUE 2009	VALUE 2014	NUMBER OFPOINTS
Losses in distribution network	22.5 %	11 %	18 points
Expected profit	0	€ 100 million	10 points
Level of electricity charged	92.8 %	100 %	10 points

Table 5: Overview of the three main indicators A2A committed when entering the EPCG; source: EPCG Contract

On the day of signing the EPCG Contract, the number of employees in the company amounted to 2,638 employees, and when it comes to social program, A2A committed not to forcibly dismiss employees for a period of three years due to economic, technical or technological surplus, and not to reduce wages. In the event of a voluntary termination of employment, the severance pay of € 20,000 is guaranteed in the first year, and in the next two years €18,400 and €17,000.

Privatization consultant received €1.7 million

Fee for privatization consultant Zagrebačka Banka was €1,704,011, out of which the performance fee was €1,329,011, and the fixed fee was €375,000,[54]

Zagrebačka Banka bank was supposed to receive the amount of €1,350,190, and it hired the Law Office Moravcevic Moravčević, Vojnović and Zdravković from Belgrade (in cooperation with the Austrian Schoenherr) as advisors, which were supposed to receive €181,320, as well as Baker Tilly Western Balkans from Belgrade for the price of €45,000 and the Energy Institute Hrvoje Požar from Zagreb, which was supposed to receive €127,500.

5.1.6. Italian company did not meet contracted indicators: EPCG contract officially expired in April 2015, by when it was supposed to be determined whether A2A had fulfilled its obligations. However, much earlier it became clear that A2A would not fulfill them, and by the end of 2014 they were far below agreed. Not even two years later, i.e. by the end of 2016, main indicators were not met.

One of the individually most important indicators A2A was supposed to achieve was to reduce the rate of technical losses[55] in the distribution network. For years, the rate of these losses was enormous, as there were no significant investments in modernization of the distribution network, and it was expected that the majority of the money that A2A brought through the recapitalization would be invested in its improvement.

[54] Annex 4 of the EPCG Contract, which refers to the Contract on a special purpose account

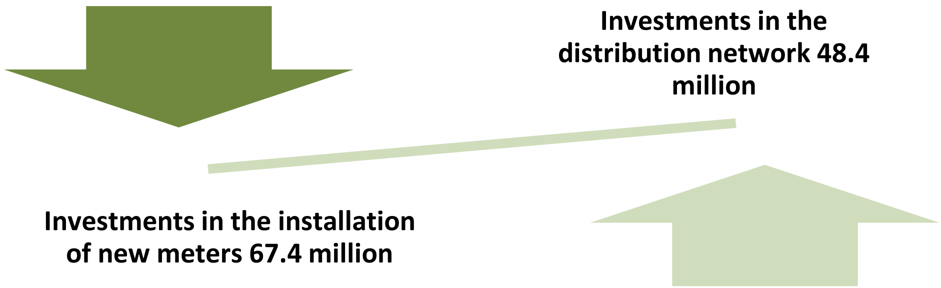
[55] Technical losses represent losses in the network that occur during transmission of electricity and in developed countries of the European Union their allowed rate is on average from five to seven percent

At a time when the Italian company became one of the owners in EPCG, that is, at the end of 2009, technical loss rate was 22.79% in relation to the total amount of electricity distributed in that year.[56] A2A committed to reduce its loss rate to 11% by the end of 2014, but at the end of that year it amounted to 17.64%[57], while a year later it was slightly lower and amounted to 17.1%[58]. At the end of 2016, losses amounted to 15.01%[59].

YEAR	2009	2010	2011	2012	2013	2014	2015	2016
Technical losses	22.79 %	19.99 %	19.2 %	20.84 %	18.96 %	17.64 %	17.1 %	15.01 %

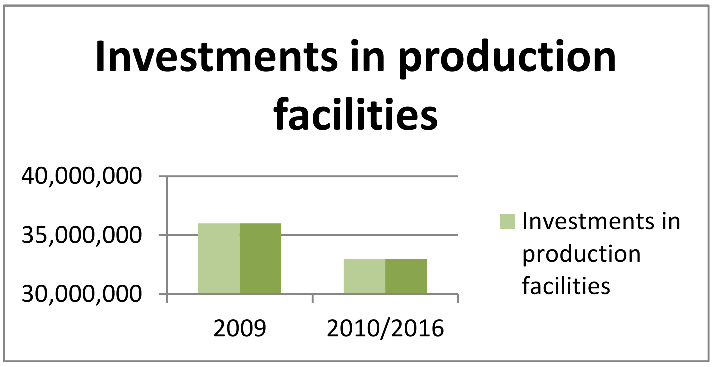
Table 6: Technical losses rate during years in which EPCG was managed by A2A; source: EPCG business reports

Technical loss rates remained high, as there were no major investments in modernization of existing one and construction of a new distribution network. According to EPCG's business reports, in the period of seven years, that is, from 2010 to the end of 2016, investments in the distribution network amounted to 48.4 million,[60] or an average of around €7 million annually.



At the same time, 67.4[61] million was invested in installation of new electronic meters[62], and this is the only effective investment during the management of the Italian A2A over Montenegrin Electric Power Company. The project of electronic meters is financed from a loan provided by the European Bank for Reconstruction and Development, and the new generation meters essentially enable EPCG to prevent unauthorized electricity consumption, while at the same time excludes irregular electricity payers from distribution network. By the middle of 2017, around 256 thousand electronic meters were installed, which is around 70% of consumers.[63]

[56] Business report of EPCG AD Nikšić for 2009
[57] Business report of EPCG AD Nikšić for 2014
[58] Business report of EPCG AD Nikšić for 2015
[59] Business report of EPCG AD Nikšić for 2016
[60] The exact amount is €48,418,472
[61] The exact amount is €67,439,475
[62] It is about the project "Improvement of the measurement system in distribution" by replacing the existing meters with new - electronic meters; link: http://www.epcg.com/domacinstva/nova-multifunkcionalna-brojila
[63] Link: http://www.cedis.me/sites/cedis.me/files/multimedia/gallery/files/2013/08/cedis_info_br_1.pdf



Graph 1: Investment ratio in 2009 and during seven years

When it comes to investments in production facilities, that is, hydroelectric power plants and thermal power plants, € 33 million[64] have been invested in the period of seven years. This amount for a seven-year period is lower than the amount invested by EPCG in production facilities in 2009, that is, just before the arrival of A2A, when over €36 million were invested.[65]

Additional €12 million was invested in development projects related to the production of electricity, while around €7.5 million was allocated for the purchase of the Šumani land in Pljevlja, which was planned for the construction of a new landfill of ash and slag. In the meantime, EPCG announced that it would give up this location, although the money had already been allocated for these purposes.[66]

Observed in relation to all investments, not only investments in distribution and production, in the period from 2010 to the end of 2016, over €183.5 million[67] was invested, but it is important to emphasize that all these investments were paid by consumers through electricity bills.

Money for years in private banks, Prva banka rescued

According to financial statements, at the end of 2016, EPCG had over €256 million[68] in accounts, and this amount was increased for 96 million in 2009, which is the money that A2A brought with recapitalization. EPCG had accumulated money in banks for years instead of investing heavily in modernizing the company.

When A2A recapitalized EPCG in 2009, most of that money was deposited in Prva banka[69], whose majority owner is Aco Đukanović, brother of former Montenegrin Prime Minister Milo Đukanović. At that time First Bank was in major financial crisis and thanks to the money that came from EPCG, it managed to survive on the market.

EPCG is one of minority shareholders of Prva banka, but instead of investing in development of the company, in all subsequent years it continued to keep most of the money in that bank, at interest rates that were unfavorable compared to other banks in Montenegro, enabling this way the liquidity of the Prva banka to its detriment.[70]

Table below shows data on the amount of deposits held by EPCG in the Prva banka by years, which are presented in the financial statements of EPCG by 2016.[71]

YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016
AMOUNT/EUR	2.9 mil	93.4 mil	80 mil	64.7 mil	58.3 mil	51.9 mil	45.7 mil	42 mil	51 mil

In addition to deposit holding, EPCG concluded a €10 million[72] subordinated loan with the Prva banka at the beginning of 2010, which included problematic norms, since Prva banka did not guarantee repayment of debt, while in the event of its bankruptcy or liquidation, debt was subordinated to other liabilities, and could also be used for the payment of bank creditors.

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64 The exact amount is €33.000.331
65 Most of the money, or around €27 million, was invested in the modernization of the First Block of Thermal Power Plant Pljevlja
66 Request for issuing of an integrated license (number EPCG 10-00-70262, December 22, 2016), submitted to the Agency for Nature and the Environment Protection
67 The exact amount is €183.639.075
68 The Securities Commission website
69 Link: http://www.prvabankacg.com/
70 More information in the NGO MANS investigative story, published on September 30, 2016, under the title "Sto miliona po najgorim kamatama"; link: http://www.mans.co.me/sto-miliona-po-najgorim-kamatama/
71 The Securities Commission website; link: http://www.scmn.me/emitenti.php?eid=207&sadrzaj=96

The agreed interest rate was 10%, but half a year later, Prva banka requested from the EPCG a reduction in the interest rate[73], and at the same time found that the subordinated loan directly enabled the bank to fulfill the conditions set by the Central Bank of Montenegro on capital adequacy.[74]

In April 2011, EPCG signed with Prva banka an annex to the agreement on a subordinated loan with which the part of the debt of €3 million was converted into shares in Prva banka[75]to lower the interest rate from 10 to 8.5%[76] in May 2012, but also extend term of repayment of the loan for another three years, that is, until February 2018.

At the end of 2016, the amount of Prva banka's debt to the EPCG on the basis of a subordinated loan amounted to € 6 million, the repayment period was April 2024, and the interest rate was even lower, amounting to 7.5% annually.

In addition to reducing technical loss rates, the new strategic partner committed to enable EPCG's profit of €100 million within five years, but it was not implemented.

Namely, in 2009, the profit of €6.2 million was listed, and a year later, the profit was €16.4 million. In the next two years, a minus in business was recorded and it was 66 million in 2011, and 5 million in 2012. In addition, in 2013, the profit of €25.1 million was listed, and a year later, €35 million, in 2015, profit of €10.7 million was listed, and at the end of 2016, it was €3.1 million.[77]

However, it should be pointed out that profit can be paid only if the company does not have accumulated losses, which is not the case with EPCG, because it amounted to 72.6 million at the end of 2009, and by 2016 it increased to €219.5 million.

In May 2015, during negotiations between the A2A and the Government of Montenegro in order to conclude a new contract and enable the payment of profits, the Board of Directors of EPCG issued a decision proposing to the Shareholders Assembly a way of covering the losses from previous years in the amount of €235.5 million.[78] According to this proposal, 165.4 million would be covered from revaluation reserves, 8.6 million from emission premium, and 61.5 million would be covered by a reduction in share capital.[79]

EPCG's Shareholders Assembly adopted these proposals in September 2016, but put them out of power in July 2017, on the grounds that it had not received the approval by the Securities Commission to cover the accumulated loss in the manner proposed.[80]

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72 Subordinated debt contract number 3432/1, March 31, 2010 concluded between EPCG AD Nikšić and Prva banka Crne Gore

73 Memo from the Prva banka 4311 on September 22, 2010, sent to the EPCG AD Nikšić by the then Executive Director of the bank Predrag Drecun, who in the letter states: "By concluding the Contract on a subordinated debt in the amount of €10 million, Prva banka has come to the source of funds that, in accordance with the regulations, is included in the supplementary capital of the bank. In this way, the capital adequacy ratio of Prva Banka was significantly improved and, consequently, other indicators as well."

74 Capital adequacy is the relationship between capital and risk assets of a bank, or the ability of the bank to cover losses incurred by bad credit placements; Since 2006, Prva banka has issued loans that have not been covered, which is why the Central Bank of Montenegro had to intervene two years later

75 Annex I of the Subordinated debt contract No. 7930, April 19, 2011

76 Annex II of the Subordinated debt contract No 17895, May 17, 2012

77 The Securities Commission website; link: http://www.scmn.me/emitenti.php?eid=207&sadrzaj=96

78 The Securities Commission website; link: http://www.scmn.me/emitenti.php?eid=207&sadrzaj=96

79 The revaluation reserves would cover the amount of € 165,445,365.01, the emission premium amount of € 8,613,641, and the reduction of the share capital would cover a sum of € 61,538,494.54

80 Decisions on the abolition of decision to reduce the share capital of EPCG AD Nikšić to cover the accumulated loss and payment to shareholders and the abolition of decision of the Extraordinary Assembly of the Electric Power Company of Montenegro adopted on September 9, 2016;
link:http://www.epcg.com/sites/epcg.com/files/multimedia/pages/files/2017/07/odluke_17._v.sa_03.07.2017.pdf

Arrests for consulting contracts with A2A

A2A's stay in EPCG was also marked by suspicious contracts for consulting services, by which A2A daughter companies from Italy were providing EPCG services for the usual and regular jobs of the energy company, performed by its special organizational units, such as the financial or legal sector.

In the course of 2010, 2011 and 2012, works were contracted in the amount of € 7.7 million[81], and the two parties have never concluded standard contracts on consulting services, but an electronic correspondence was established that precisely defined the services provided by the Italian company on an annual basis[82]. The contracts were concluded in the coming years as well, but details are unknown.

Consulting contracts are one of the widespread mechanisms for withdrawing money from companies.

In April 2016, the Special State Prosecutor's Office of Montenegro arrested several EPCG executives for consulting activities, because they were negotiated bypassing the mandatory public procurement procedure, which EPCG was obligated to implement[83]. Montenegrin members of the Board of Directors argued that by the beginning of 2014, they were not familiar with those affairs, even though they were denied by the company's financial statements for 2012, since they show for the first time deals with A2A for that and the previous year.

At the end of 2017, EPCG and A2A signed a settlement agreement regarding solving a dispute based on invoiced consulting services in the period from 2010 to the end of 2012, with a total value of €7,750,280[84]. Of this amount, the A2A had already received €4.340.000, but the Italian company committed itself to repaying that amount and withdrawing all invoices. The amount of €4,340,000 was returned to EPCG on November 6, 2017.

5.1.7. Changes in share capital in 2014: During 2014 there was a change in share capital, in the way that the State of Montenegro increased its ownership by 2.02%, while the share of the Italian A2A decreased for the same percentage. Namely, due to the debt that the Aluminum Plant Podgorica had for unpaid electricity, EPCG did not pay taxes and contributions on wages. Thus, on that basis, it had owed €45 million by the beginning of 2013. The government decided to convert this debt into equity, increasing its ownership in the EPCG to 57.02%.[85]

SHAREHOLDERS	SHARES NUMBER	EQUITY
State	74,823,662	57.02 %
A2A	54,785,075	41.75 %
Other legal persons	94,475	0.07 %
Natural persons	1,525,843	1.16 %
TOTAL	**131,229,055**	**100** %

Table 7: Capital structure at the end of 2014; source: EPCG Financial report

This ratio of capital was kept until the end of 2016.

81 More information in the NGO MANS investigative story, published on July 11, 2016, under the title „Preko mejlova izvukli 7,7 miliona eura"; link:http://www.mans.co.me/preko-mejlova-izvukli-77-miliona-eura/

82 The two parties are referring to the basic management contract according to which A2A has the responsibility to contribute to the improvement of industrial performance of EPCG AD Nikšić; Italian A2A provided support in general management, in relations with public and private institutions, coordination and management in business activities, then support to accounting that involves preparation of financial accounts, processing and analysis for management reporting, support in planning, finance, internal audit; assistance included the definition of legal requirements of EPCG AD Nikšić, its legal structure, preparation of main contracts, main dispute management, technical capacity management, human resources management...

83 Article at Portal Vijesti under the title „EPCG oštetili za oko 15 miliona?"; link: http://www.vijesti.me/vijesti/epcg-ostetili-za-oko-15-miliona-eura-883962

84 MANS is not in possession of this Agreement, and the public learned about it for the first time when the consolidated financial statements of Electric Power Company of Montenegro Nikšić for 2016 and the Independent Auditor's Report, i.e. audit firm Ernst & Young Montenegro doo Podgorica, were disclosed in December 2017

85 The Securities Commission website; link: http://www.scmn.me/emitenti.php?eid=207&sadrzaj=96

5.1.8. Government replaced old contract with the new one in 2016: In mid-July 2016, the Government of Montenegro adopted the Proposal of the Shareholders Agreement between the State of Montenegro and A2A and submitted it to the Parliament for adoption[86]. At the end of the same month, the Parliament adopted the Shareholders Agreement.[87]

The explanation submitted to MPs then stated that the agreements with A2A expired on April 1, 2015, and that the Interim Agreement that was the basis for further negotiations regarding the conclusion of a new shareholder agreement was concluded a day later. The Interim Agreement expired on December 15, 2015, after four extensions, but the Government never published their content.[88]

Furthermore, it was explained that the Shareholders Agreement is submitted for decision to deputies, because it defines the option of the exit of the Italian A2A from the EPCG for a price of 250 million, which is the value decided by the Parliament of Montenegro.[89] Also, the Government stated that the Shareholders Agreement should be adopted due to the continuation of the activities necessary for the construction of the Second Block of Thermal Power Plant in Pljevlja, for which the financing decisions had to be made by the end of 2016.

At the moment of adoption of the Shareholders Agreement, the State owned 57% of the share capital, and A2A was the second largest shareholder with 41.7% of the capital. The contract was valid until the end of 2016.

In 2016, the government had 57% of shares, while A2A had 41.7 % of shares

Two options for A2A exit from the Montenegrin Electric Power Company are defined in the Shareholders Agreement. The first option is to terminate the contract because of an important obstruction in decision making[90], and the other is the so-called put option, to which A2A has discretion within three months after the expiration of the contract.

Put option implies that A2A, on the basis of pre-emptive right, first offers the Government of Montenegro its share package[91] for € 250 million, which would be paid in seven annual installments, or 35.7 million per

[86] Proposal of the Shareholders Agreement between the State of Montenegro and A2A, S.P.A No. 08-160, July 19, 2016; Link: http://www.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/1157/1216-7821-00-72-16-32-2.pdf

[87] Decision on acceptance of the Shareholder Agreement between the State of Montenegro and A2A S.P.A. number 00-72 / 16-32 / 6, July 29, 2016; link: http://www.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/1157/1216-8146-.pdf

[88] On several occasions, MANS requested those information on the basis of the Law on Free Access to Information, but the General Secretariat of the Government, the Ministry of Economy and the EPCG rejected this; In October 2015, the Deputy Prime Minister for Economic Policy and Financial System Vujica Lazović issued a Decision declaring the information secret, explaining that their publication could adversely affect the flow and negotiations on the conclusion of the Shareholders Agreement (Decision No. 08-197 of October 2015); MANS filed a lawsuit to the Administrative Court and it annulled the Decision of the General Secretariat refusing to provide us with information on confidentiality of data (Administrative Court verdict No. 3299/2015 rendered on June 3, 2016); however, in July 2016, in accordance with the verdict of the Administrative Court, the General Secretariat re-issued the Decision refusing to submit the documentation (Decision No. 120 / 10-15, July 4, 2016), although the verdict was in favor of MANS

[89] The Law on State Property (Official Gazette of Montenegro 21/09) is prescribed by Article 29, paragraph 3: "At the proposal of the Government, the Parliament of Montenegro decides on the disposal of goods and other assets in state property above the value of €150,000,000."

[90] A significant obstruction exists when the Board of Directors and the EPCG Assembly did not make a decision on important issues, and the meeting of the Board of Directors is not held within 20 days from the filing of the request for maintenance, and the Assembly meeting within 40 days from such request; the important issue reserved for the EPCG Assembly and the Board of Directors is related to the Construction of the Second Block of the Thermal Power Plant in Pljevlja

[91] A total of 54,785,075 shares

year. The Government will pay the installments within 60 days from the adoption of the annual budget, and no later than by the beginning of May each year. By the agreement, the price of a share is fixed at the amount of € 4.5, but it is not clear how it was calculated.

Each year the state returns ownership to the EPCG according to the repayment rate, which in practice means that the State will not regain possession of the property at once, but A2A remains a shareholder until the last installment is paid.[92]

After activating Put option, A2A no longer has management rights in the EPCG, and also pledged to always vote for the distribution of dividends, not to block or vote against decisions concerning the EPCG's obligations and the Construction of the Second Block of the Thermal Power Plant. If in the period of seven years it breaches those obligations, then the right to Put option will be terminated, and then the Government is not obliged to pay the price for the shares.

The contract stipulates that the State will be entitled to a contractual penalty of 14% in relation to the Put option price if A2A sells its shares to a third party after informing the Put option. Along with this notice, A2A must provide a statement to waive possible claims through arbitration or judicial proceedings against the State of Montenegro[93], while on the other hand, the State must also waive the same such claims.

Total liability in the event of breaching of contract obligations and guarantees was set at a maximum of €25 million for both parties. In the event of a dispute, ad hoc arbitration in Paris is competent.

Three main investments are defined in the Shareholders Agreement

Three main projects are defined by the Shareholders Agreement: 1) Turning of Zeta River into the Krupac Lake and connecting the Krupac and Slano Lake, 2) The third phase of the AMM project, i.e. remote meters, 3) The Second Block Project of the Thermal Power Plant in Pljevlja.

By the end of 2017, the projects of turning Zeta River and the Second Block of the Thermal Power Plant were not certain, while a €32 million[94] loan agreement was signed for the third phase of installation of remote meters.

Montenegrin Parliament adopted in March 2017 the Annex to the Shareholders Agreement[95], which extends its duration until June 30, 2017. Also, the Annex specifies that the first installment will be paid by May 1, 2018, which means that the last - seventh installments will be paid in 2024. The Business Plan was replaced by the EPCG Budget for 2017, while three main investments (Turning of Zeta River into Lake Krupac, the continuation of installation of remote meters and the Second Block of Thermal Power Plant) are still retained as a priority.[96]

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[92] The Shareholders Agreement defined that the Put option will overwhelm the Contract until full payment of the Price of Put option A2A by the State

[93] Waiver of claims by A2A excludes only claims that may arise in connection with criminal proceedings conducted by the Special Prosecutor's Office of Montenegro against former A2A managers on the basis of an investigation published on April 17, 2016, provided there is no double compensation of damages by EPCG and/or the State of Montenegro; former EPCG managers Flavio Bianco, Enrico Malerba and Massimo Sala are suspected of concluding contracts for consulting services outside the Law on Public Procurement, to which they were required

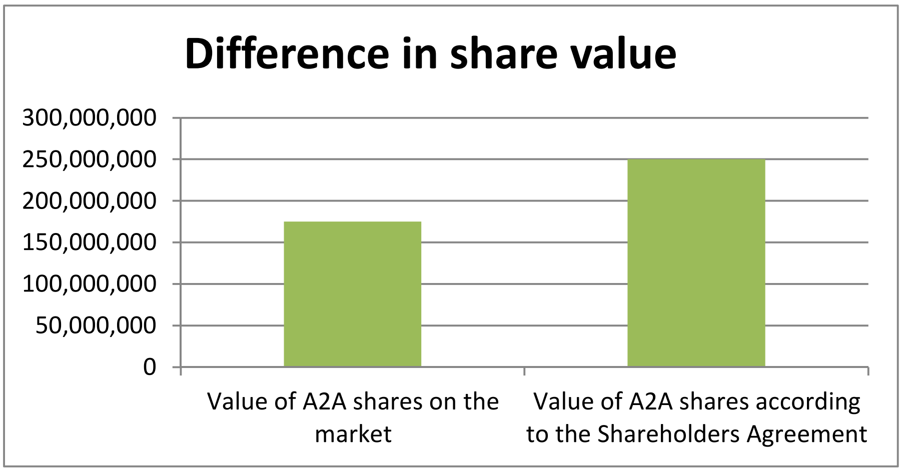
[94] The loan agreement was signed on May 17, 2017; link:http://www.cedis.me/media-centar/saopstenja-za-javnost/za-nova-brojila-i-modernizaciju-mreze-jos-39-miliona-eura

[95] Decision on acceptance of Annex 1 of the Shareholders Agreement between the State of Montenegro and A2A S.P.A, No. 00-72 / 17-6 / 4, March 6, 2016; link: http://www.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/95/1372-8808-00-72-17-6-4.pdf

[96] Proposal of Annex 1 of the Shareholders Agreement between the State of Montenegro No. 07-49, March 2, 2017; link:http://www.skupstina.me/zakoni/web/dokumenta/zakoni-i-drugi-akti/95/1372-8790-00-72-17-6.pdf

5.1.9. Italian A2A initiates procedure for leaving EPCG in July 2017: A2A launched the Put option in early July 2017[97], and the Ministry of Economy announced that the process of the Italian company leaving the ownership and management structures of the EPCG officially started.

It was then announced that the partnership with A2A contributed to EPCG being in a better position than it was when entering the Italian company, although not to the extent that it was designed. At the moment of launching the option of leaving the EPCG at the capital market in Montenegro, the average value of the EPCG share amounted to around € 3.2, which means that the package of shares of the Italians was worth around € 175.3 million.



Graph 2: Difference in share value

At the beginning of 2018, the Government announced its negotiations with several financial institutions in order to find a more favorable buyback model than the one defined by Put option.[98] As explained, a financial institution would buy A2A shares on behalf of the state and hand them over to the state, and it would repay them on the same terms.

Although at the moment of signing EPCG Contract the EPCG had 2.638 employees, by the end of 2009 this number was higher and amounted to 2.990 employees.[99] By the end of 2016, the number of employees was 2.306[100], which means that after seven years the number of employees was lower by 684 workers.

CRNA GORA
Komisija za hartije od vrijednosti
Broj: 02/3-289/7-02
Podgorica, 12.01.2018. godine

Na osnovu člana 8 Zakona o hartijama od vrijednosti ("Sl. list RCG", br. 59/00, 10/01, 43/05, 28/06 i "Sl. list CG", br. 53/09, 73/10, 40/11, 06/13), člana 59 Zakona o privrednim društvima ("Sl list RCG", br. 06/02 i "Sl. list CG", br. 17/07, 80/08, 40/10, 36/11, 40/11) i člana 5 i 19 Pravila o načinu upisa i vođenja Registra emitenata hartija od vrijednosti kod Komisije za hartije od vrijednosti ("Sl. list CG", br. 75/15 i 56/16), Komisija za hartije od vrijednosti, na 2. sjednici od 12.01.2018. godine, donosi

RJEŠENJE

1. Smanjuje se kapital emitenta: "ELEKTROPRIVREDA CRNE GORE AD NIKŠIĆ" *Akcionarsko društvo*, sa sjedištem u Nikšiću, Vuka Karadžića br. 2, po Odluci o smanjenju osnovnog kapitala Elektroprivrede Crne Gore AD Nikšić radi pokrića akumuliranog gubitka, broj 10-00-61226 od 30.12.2017. godine, na iznos od 855.285.365,9625 €.

2. Ovo rješenje stupa na snagu danom donošenja.

Photo 3: From the Decision of the Securities Commission

5.1.10. Securities Commission approves the capital reduction in early 2018: In mid-January 2018, the Securities Commission gave a "green light" to reduce EPCG's share capital by over €148 million.[101]

According to this approval, the share capital of the energy company to cover

p://www.gov.me/vijesti/174185/Aktiviranjem-Put-
ra-EPCG.html
: http://www.mek.gov.me/vijesti/180253/Intervju-

201612RK.pdf
, link:

accumulated losses is reduced by €148.3 million[102], so the share capital after reduction is €855.2 million[103]. At the same time, the decision reduced the nominal value of the EPCG share from €7.64 to €6.51.

MANS still does not have documentation on the basis of which the Securities Commission approved a decrease in the EPCG share capital, based on which it can be determined whether it is legitimate.[104]

[102] The exact amount is € 148,373,499

[103] The exact amount is € 855,285,365.96

[104] The documentation was requested in February 2018 by the Securities Commission on the basis of the Law on Free Access to Information

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February 2018

The Network for Affirmation of NGO Sector - MANS

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