

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 25 February 2026¹

MONTENEGRO

CGES BIH-MNE-ALB 220kv OHL RECONDUCTORING

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2024), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS

ALB	Albania	KV	Kilovolt
BIH	Bosnia and Herzegovina	LTA	Lenders' Technical Advisor
CAPEX	Capital Expenditure	MEPX	Montenegrin Power Exchange
CEDIS	Crnogorski Elektrodistributivni Sistem	MDB	Multilateral Development Bank
CEI	Central European Initiative	MW	Megawatts
CGES	Crnogorski Elektroprenosni Sistem	MWh	Megawatt hours
COTEE	Crnogorski operator tržišta električne energije	NECP	National Energy and Climate Plan
CPI	Consumer Prices Index	O&M	Operations & Maintenance
DAM	Day-Ahead Market	OCF	Operating Cash Flow
E&S	Environmental and Social	OHL	Overhead transmission Line
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization	PIU	Project Implementation Unit
ECEPP	EBRD Client E-Procurement Portal	PP&Rs	EBRD Procurement Policies and Rules
EPCG	Elektroprivreda Crne Gore a.d. Nikšić	PV	Photovoltaics
ESAP	Environmental and Social Action Plan	RAB	Regulatory Asset Base
ESDD	Environmental and Social Due Diligence	RE	Renewable Energy
EU	European Union	REGAGEN	Energy and Water Regulatory Agency of Montenegro
EUR	Euro	RES	Renewable Energy Sources
EURIBOR	Euro Interbank Offered Rate	RRaR	Regulated Rate of Return
EU NIS2	Directive (EU) 2022/2555 on measures for a high common level of cybersecurity across the Union (NIS2 Directive)	RReR	Regulated Return on Revenue
EU NCCS	Commission Delegated Regulation (EU) 2024/1366 establishing a Network Code on Cybersecurity for cross-border electricity flows	SC	Supply Chain
GDP	Gross Domestic Product	SEP	Stakeholder Engagement Plan
GHG	Greenhouse Gas	SPP	Solar Power Plant
GW	Gigawatts	SPV	Special Purpose Vehicle
GWh	Gigawatt hours	TJ	Terajoules
HPP	Hydro Power Plant	TPP	Thermal Power Plant
HV	High Voltage	WBIF	Western Balkans Investment Framework
IMS	Integrated Management System	WPP	Wind Power Plant
KPI	Key Performance Indicator	WTG	Wind Turbine Generator

Montenegro uses the Euro as its currency

WEIGHTS AND MEASURES

1 Megawatt (MW)	=	1,000 kilowatts (10 ³ kW)
1 Gigawatt (GW)	=	1 million kilowatts (10 ⁶ kW)
1 Megawatt-hour (MWh)	=	1,000 kilowatt-hours (10 ³ kWh)
1 Gigawatt-hour (GWh)	=	1 million kilowatt-hours (10 ⁶ kWh)

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Crnogorski Elektroprenosni Sistem (“CGES”, the “Borrower” or the “Company”) a state-owned company acting as the Transmission System Operator in Montenegro where it is incorporated, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign guaranteed loan to CGES in the amount of up to EUR 15 million. The loan will be guaranteed by the Ministry of Finance of Montenegro. The operation will enable CGES to finance the reconductoring of the Montenegrin section of the 220 kV overhead transmission line (OHL) that runs from Trebinje, Bosnia & Herzegovina (BIH), through Montenegro, to Vau i Dejës, Albania (the “Project”). The Project will cover only the section located within Montenegro, from the border with BIH to the border with Albania. This power transmission corridor forms the national electricity “backbone” and plays a pivotal role in enabling cross-border electricity exchange. The operation will result in the transmission capacity increase from 300MW to 600MW and it will enable the integration of new renewable energy source (RES) capacity.

The Project’s primary transition quality is Resilient, through supporting the Company’s corporate governance improvements and the diagnostic of the readiness of CGES to set-up regional Available Transfer Capacity Market Coupling (i.e. allocation of cross-border capacity). The secondary transition quality is Green, as it will lead to the reduction of 69 terajoules (TJ) electricity losses, resulting in 9.1ktons of annual CO₂ emission reductions. The Project has also been designated as Gender Smart, as CGES has committed to providing diversity, equity, and inclusion (DEI) training for all members of its management team.

Technical Cooperation (“TC”) support for project preparation has been provided by the EBRD Shareholder Special Fund (“SSF”) and by the Central European Initiative (CEI). Funding for post-signing TCs for i) Cybersecurity Resilience Programme (expected to be provided by SSF) and ii) a diagnostic study for market coupling by EU IPA funds, provided through the EU Reform Facility for Montenegro.

On 11 December 2025, IPAM registered the request (IPAM case number 2025/11) received from a community group based in Brezna, Montenegro with regards to the EBRD’s project Substation Brezna Project (54749). Key concerns raised in the complaint include alleged project induced risk to the existence and sustainable future of the village, increased noise and electromagnetic fields, with potential health risks, loss of property value and erosion of economic activity including eco-tourism. The case is currently in the Assessment Stage to determine whether it will be processed under Problem Solving or Compliance. [REDACTED]

I am satisfied that the operation is consistent with the Bank’s Strategy for *Montenegro 2021-2026*, *Energy Sector Strategy*, *Green Economy Transition Approach 2021-2025*, the *Equality of Opportunity Strategy 2021-2025*, the *Strategy for the Promotion of Gender Equality 2021-2025*, the *Bank’s Approach to Accelerating the Digital Transition 2021-2025*, and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

MONTENEGRO - CGES BIH-MNE-ALB 220kv OHL RECONDUCTORING – DTM 56649	
Transaction / Board Decision	Board approval ² is sought for a sovereign-guaranteed loan of up to EUR 15 million in favour of Crnogorski Elektroprenosni Sistem AD (“CGES”, the “ Borrower ” or the “ Company ”), the majority state-owned Montenegrin transmission system operator, to finance the reconductoring of the Montenegrin section of 220kv overhead transmission line between Trebinje (BIH) - Perućica (MNE) - Podgorica (MNE) - Vau i Dejës (ALB), with the purpose of doubling its transmission capacity from 300MW to 600MW. The financed works will cover only the 95km section located within Montenegro, from the border with BiH to the border with Albania (the “ Project ”). CGES is actively coordinating with BiH and Albanian Transmission System Operators (TSOs) for each to reconductor their respective sections in the near future. With EBRD’s support, CGES has established continuous coordination among all parties to ensure alignment on project implementation.
Client	<u>Borrower</u> : CGES, an existing client of the Bank, is the sole TSO of Montenegro. CGES is majority state-owned (55%), followed by the Italian TSO Terna (22%) and the Serbia TSO EMS (15%). CGES operated transmission system is an important hub connecting the Balkans with Western Europe, primarily by the undersea cable connection with Italy. It is listed on the Montenegro Stock Exchange [REDACTED] <u>Guarantor</u> : Montenegro (the “ Guarantor ”) through the Ministry of Finance (“ MoF ”).
Main Elements of the Proposal	<u>Transition impact</u> : Primary quality – Resilient. The Project will assess CGES readiness for regional market coupling and support integration of renewables into Montenegro’s energy system, aligned with EU approximation process. Secondary quality – Green. The Project is 100% GET and its implementation will reduce electricity losses of approximately 69 TJ, resulting in 9.1ktons of CO ₂ emission reductions annually. <u>Additionality</u> stems from i) providing financing with a long tenor which is not commonly available in the market, ii) providing cybersecurity TC to improve overall grid resilience and elevate standards for grid-connected RES, iii) providing best international procurement standards, and iv) supporting the Borrower in achieving higher environmental and social standards. <u>Gender Smart Tag</u> : The Company will introduce mandatory Diversity, equity, and inclusion (DEI) training for all managers which will introduce inclusion practices of CGES for the first time. <u>Sound banking</u> : the Project has standard pricing for sovereign guaranteed loans.
Key Risks	<u>Construction delay/cost overrun risk</u> are mitigated through the inclusion of Project CapEx in the CGES Regulated Asset Base (RAB) as they occur, and appointment of consultants, acceptable to the Bank, assisting with procurement, implementation and supervision. <u>Regulatory risk/affordability risk</u> are mitigated by the demonstrated support for the Project from the Energy and Water Regulatory Agency of Montenegro (the “Regulator”). EBRD has a long-standing dialogue with energy-related local authorities, including the Government and respective ministries, the Regulator, the Montenegrin electricity market operator (COTEE), EPCG, CGES and CEDIS.
Strategic Fit Summary	The Project is consistent with the Bank’s Strategy for Montenegro 2021-2026, the Energy Sector Strategy , the Green Economy Transition Approach 2021-2025 , the Strategy for the Promotion of Gender Equality 2021-2025, the Equality of Opportunity Strategy, the Strategy for the Promotion of Gender Equality 2021-2025, the Bank’s Approach to Accelerating the Digital Transition 2021-2025, and with the Agreement Establishing the Bank.

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Sovereign-guaranteed loan of up to EUR 15 million in favour of CGES, the Montenegrin transmission system operator, to finance the reconductoring of the Montenegrin section of 220 kV overhead line (“OHL”) network that runs from Trebinje (BIH) to Vau i Dejës (ALB), (the “ Project ”).
Existing Exposure	<p>Exposure to CGES</p> <p>As of 18 December 2025 exposure to CGES stood at:</p> <ul style="list-style-type: none"> i) [REDACTED] Lastva - Pljevlja Transmission Line (total loan EUR 69 million [REDACTED]), and ii) [REDACTED] Substation Brezna, total loan EUR 28 million. <p>Existing exposure to Montenegro: Total EBRD sovereign portfolio in Montenegro (sovereign loans and sovereign guarantees) as of 30 September 2025 amounted to EUR 304.5 million [REDACTED].</p>
Maturity / Exit / Repayment	Tenor of 12 years [REDACTED]
Use of Proceeds - Description	Proceeds of the loan will finance the reconductoring of the Montenegrin section of 220 kV overhead transmission line that runs from Trebinje (BIH) to Vau i Dejës (ALB), by installing HTLS conductors. The loan will finance only the OHL reconductoring in Montenegro, from the border with BiH to the border with Albania, increasing its capacity through the replacement of existing conductors with High Temperature Low Sag (HTLS) conductors.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> - The Borrower: CGES - The Guarantor: Ministry of Finance (MoF), on behalf of Montenegro - Ministry of Energy and Mining (MoEM)
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign guarantee from Montenegro (S&P: B+ stable outlook / Moody’s Ba3 stable outlook).
Other material agreements	n/a
Associated Donor Funded TC and Blended Concessional Finance	<p>Technical Cooperation (TC)</p> <p><i>Pre signing</i></p> <ul style="list-style-type: none"> - TC1: Feasibility Study [REDACTED] and Preliminary Design for 220kv reconductoring was completed in July 2025. Costs [REDACTED] were funded by CEI; this funding included the same scope of works for another project, a new OHL from Ulcinj (MNE) to Velipoje (ALB). - TC2: Environmental and Social Due Diligence including SEP, ESAP and NTS [REDACTED], financed from the EBRD Shareholders Special Fund (SSF). <p><i>Post signing</i></p> <ul style="list-style-type: none"> - TC3: Diagnostic of the readiness of CGES to set-up regional ATC Market Coupling Diagnostic of the CGES’ readiness in the set-up of a regional Day-Ahead Market Coupling (i.e. allocation of cross-border capacity) in support of RES penetration and regional trading and in line with the country’s EU approximation process. Estimated TC budget [REDACTED] planned to be financed by EU IPA funds through the EU Reform Facility for Montenegro “Support to Energy Security, Investment Climate and Governance for Montenegro”.

	<p>- TC4: Broader cyber resilience of CGES will be supported through a cybersecurity TC with CGES, under the Cybersecurity Resilience Program (CRP). [REDACTED] Estimated TC budget [REDACTED] planned to be financed from EBRD Shareholders Special Fund (SSF). <u>Company's contributions:</u> The Company will be responsible for paying all VAT and other indirect taxes. The Company will also provide premises, translating services and other facilities as required by the consultants.</p>
[REDACTED]	

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Strategic investments in renewable energy and grid infrastructure are essential for enhancing energy supply, strengthening energy security, and accelerating decarbonization across Montenegro and the Western Balkans. By diversifying the energy mix and reinforcing transmission networks, countries in the region can reduce dependence on fossil fuels, improve grid reliability, and mitigate the effects of climate change. These efforts not only promote a sustainable energy future but also foster economic growth and regional cooperation.

Montenegro has demonstrated a strong commitment to the green transition. It was the first Western Balkan country to pledge no new coal capacity, launched the region's first CO₂ emissions trading scheme in February 2020, joined the Powering Past Coal Alliance, and committed to phasing out coal-fired generation by 2040. The Government is also preparing its National Energy and Climate Plan (NECP), targeted for completion by mid-2026. At the same time, most importantly Montenegro has emerged as a key transmission hub between the Balkans and the European Union, notably through the development of undersea cable connections with Italy and critical transmission lines such as Lastva–Pljevlja, financed by the EBRD. Moreover, in 2023 the EBRD provided a loan extension to urgently procure a variable shunt reactor, critical for stabilising the network amid shifting demand and high voltage levels and in 2024, the Bank signed a loan to finance the expansion of the Brezna substation to 400 kV, supporting increased green energy integration, improved reliability, and reduced losses. Both projects are under implementation.

The proposed Project will enhance energy security by expanding capacity and attracting new renewable energy investments. The Project involves the rehabilitation of the Montenegrin section of the existing 220 kV corridor (Trebinje–Perućica–Podgorica–Vau i Dejës), from the border with BiH to the border with Albania, using high temperature low sag (HTLS) conductors. The upgrade will alleviate existing bottlenecks and enable greater cross-border electricity exchange, supporting the integration of up to 300 MW of new renewable capacity. As the Montenegrin section of this route is the “backbone” of the national grid by connecting a major HPP, the capital and two more countries, the reconductoring will bring immediate benefits in the national network.

The Project will enhance regional connectivity and grid reliability, benefiting existing and future renewable energy plants through reduced transmission losses. In parallel, EBRD cooperation with the Ministry of Energy and Mining has enabled Montenegro's first renewable energy auction, expected to award at least 250 MW of solar capacity under a CfD scheme by mid-2026, marking a key step in the country's energy transition and EU alignment. EBRD is also financing additional renewable capacity.

In conclusion, the CGES BiH-MNE-ALB 220 kV reconductoring project is a strategic enabler of Montenegro's energy transition, regional market integration, and decarbonization goals. It is technically sound, economically viable, and aligned with national and regional energy strategies. The operation is consistent with the Bank's Strategy for Montenegro 2021-2026, Energy Sector Strategy, Green Economy Transition Approach 2021-2025, the Equality of Opportunity Strategy 2021-2025, the Strategy for the Promotion of Gender Equality 2021-2025, the Bank's Approach to Accelerating the Digital Transition 2021-2025, and with the Agreement Establishing the Bank.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	<i>The Project entails a policy dialogue initiative that has been assessed as Strong Good by the sector economist.</i>	In line with EU and Energy Community requirements, TSOs including CGES have a key role to play in supporting regional market integration through market coupling, in turn supporting energy security and RE penetration at scale (which requires deep/flexible supply and demand outlets to be able to balance RE intermittency at least cost). The Project includes a dedicated TC supporting the Company's governance with a TC for the diagnostic of the readiness of CGES to set-up regional available transfer capacity market coupling (i.e. allocation of cross-border capacity) in support of RES penetration and regional trading and in line with the country's EU approximation process.
1.2	<i>The Project will allow the connection of planned renewable energy installations which currently are not possible due to inadequacy of the grid, or lead to a decrease in the curtailment of existing renewable energy installations, as verified by ESD.</i>	The Project introduces the increase of ampacity of the 220 kV network by the replacement of existing conductors with High Temperature Low Sag conductors (HTLS). The Montenegrin transmission grid in this area is congested under certain operational regimes due to increased demand for connections applications, mostly for connecting new renewable energy generation facilities. The implementation of this Project will not only significantly reduce current congestions but will also enable future connections of RE-based generation facilities. The Project will enable integration of up to 300 MW of new renewable energy sources into the Montenegrin energy system.

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.</i>	The Project is attributed 100% GET. This share has been calculated in line with EBRD's Methodology to determine the green finance attribution of EBRD investments. The Project complies with the following MDB (Multilateral Development Bank) Climate Change Mitigation Eligibility Criteria: Energy transport and Transport of electricity. As the Project is increasing the amount of capacity on the transmission line, it was split into a brownfield part (energy transport criteria fulfilled) and a greenfield part (transport of electricity criteria fulfilled). Reduction in thermal losses will be achieved and result in 9.1ktons of CO ₂ emission reductions.
2.2	<i>The Project results in energy savings that exceed 0.1% of annual national energy consumption, so significantly contributes to improved energy efficiency.</i>	Energy savings achieved due to reduction of electrical losses are approximately 69 TJ which exceeds 0.1% of annual national energy consumption. According to IEA the electricity consumption in the country is 9,788 TJ.

1.3 ADDITIONALITY

Identified triggers	Description
<p>A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction).</p>	<p>CGES is an existing client of the Bank. Previous transactions include:</p> <ol style="list-style-type: none"> 1. In 2013, a EUR 69m loan for the Lastva-Pljevlja transmission line [REDACTED]; 2. In 2023, a EUR 9m loan extension for the loan extension to the Lastva-Pljevlja transmission line original transaction, for the installation of a variable shunt reactor at the substation Lastva [REDACTED]. 3. In 2024, a EUR 28m loan for the financing of the expansion of CGES' substation Brezna to 400kv [REDACTED]. <p>EBRD assistance is needed now to address the CGES's investment needs, as the required tenor for the transaction is longer than commonly available to CGES on market.</p>
Additionality sources	Evidence of additionality sources
<p>Financing Structure: EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the Project.</p>	<p>EBRD is offering financing, which is not available on market. The loan will be provided with a 12-year tenor [REDACTED]</p>
<p>Standard-setting: helping projects and clients achieve higher standards Client seeks/makes use of EBRD expertise and resources on best international procurement standards</p>	<p>EBRD funding and application of Bank's PPR will ensure wider market outreach.</p>
<p>Gender SMART Tag: Client seeks/makes use of EBRD expertise on gender standards and/or equal opportunities action plans.</p>	<p>CGES has committed to introduce mandatory diversity, equity and inclusion (DEI) and equal opportunities training. This training will cover all middle, senior and executive level management (40 staff in total). This is part of a wider programme planned for the Company in collaboration with the EBRD over the coming years. This first action on gender mainstreaming will lead to further strategic planning in collaboration with the Bank.</p>
<p>Knowledge, innovation, and capacity building - EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client.</p>	<p>CGES will receive cybersecurity support from EBRD, in the form of a post-signing TC to assess and enhance the Company's existing cybersecurity capabilities, with a particular emphasis on improving overall grid resilience and elevating standards for grid-connected distributed renewable energy resources.</p>

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Construction delay and cost overrun	Medium / High	<p>Project implementation could be more complex than anticipated, leading to delays and additional cost.</p> <p>Mitigation: The Project's CAPEX is included into the regulated asset base (RAB) of CGES as they occur, providing a substantial contingency reserve. [REDACTED] CGES has an experienced team which worked on previous EBRD financed projects and will set up appropriately staffed project implementation unit (PIU). CGES will have strong support from experienced consultants for procurement and implementation. Lastly, CGES has committed to provide additional funds, as required to complete the Project.</p>
Regulatory risk / affordability risk	Low / High	<p>[REDACTED]</p> <p>Mitigation: The Project's CAPEX is included into the regulated asset base (RAB) of CGES as they occur, providing a substantial contingency reserve [REDACTED] The Regulator has demonstrated support for the Project. EBRD has a long-standing dialogue with energy-related local authorities. [REDACTED]</p>
Creditworthiness of the Borrower	Low / Medium	<p>[REDACTED]</p> <p>Mitigation: The Team has conducted stress test scenarios in the financial model, demonstrating the Company's resilience to adverse changes in operational and market conditions and the ability to service its debt in full even if any of those scenarios materialises. The risk is also mitigated by sovereign guarantee from Montenegro.</p>
Sovereign Risk	Low / High	<p>Montenegro continues to exhibit a relatively stable economic outlook with improvements in its credit metrics. S&P confirmed its B+ rating with a stable outlook in early 2025. Meanwhile, Moody's has affirmed Montenegro's Ba3 rating with a stable outlook in 2025. The public debt level has remained relatively stable, while the budget deficit has been increasing. Following several years of declining general government debt, it rose moderately to 61.3 per cent of GDP in 2024 but returned on a downward path at 56.9 per cent in March 2025. Growth is expected to slow to 2.6 per cent in 2025 and 2.7 per cent in 2026. Risks include geopolitical uncertainty, sluggish EU growth, and lower tourism competitiveness from rising wages. The IMF projects full-year 2025 real GDP growth at 3.2 per cent, with inflation around 3.3 per cent. Risks remain from debt servicing pressures (7.4 per cent of GDP in 2024) and external vulnerabilities given the country's reliance on imports and tourism. Nonetheless, the political stability following recent elections and ongoing EU accession efforts help mitigate transition risks.</p>
Cybersecurity Risk	Medium/High	<p>The Project falls under the high-risk category of the Management Approach to Cybersecurity in the Sustainable Infrastructure sector, presented to the Board in October 2025. However, as the Approach is being rolled out gradually, EBRD will be deploying a post-signing TC to support CGES with alignment to the Cybersecurity Management Approach. Furthermore, the TC will assist with managing the supply chain risk and the grid code robustness in preparation to renewable resource integration.</p>

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Legal, institutional or regulatory frameworks in target areas improved	Market coupling achieved by 2030, i.e. regional Available Transfer Capacity Market Coupling (i.e. allocation of cross-border capacity) in support of RES penetration and regional trading.	No	Yes	[REDACTED]
1.2	Net increase in energy infrastructure usage and/or capacity	The Project will increase the transmission capacity from 300 MW to 600 MW and therefore improve the existing connections to BiH and Albania, and allow the connection of additional renewable energy sources to the Montenegrin grid.	300	600	[REDACTED]

Secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	8 e emissions reduced (tonnes/year)	As the Project is increasing the amount of capacity on the transmission line, it was split into a brownfield part (energy transport criteria fulfilled) and a greenfield part (transport of electricity criteria fulfilled). Reduction in thermal losses will be achieved and result in 9.1ktons of CO ₂ emission reductions.	0	9,123	[REDACTED]
2.2	Primary energy saved (GJ/year)	Energy savings achieved due to reduction of electrical losses are approximately 69 TJ which exceeds 0.1% of annual national energy consumption. According to the IEA, the electricity consumption in the country is 9,788 TJ.	0	69,721	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	<i>Project implementation product completed: Assessment of Storage Implementation to Support Large-scale RES Integration into the Power System of Montenegro (Donor TC)</i>	<i>Assessment of Storage Implementation to Support Large-scale RETCS Integration into the Power System of Montenegro completed and the final report approved</i>	<i>N</i>	<i>Y</i>	[REDACTED]
Gender SMART: Advisory & Policy Indicators	<i>Practices of the relevant stakeholder improved (equal opportunity practices of the client)</i>	<i>The Company will introduce a new outreach diversity, equity and inclusion training programme for all managers (40 in total currently). This will be mandatory for all new managers.</i>	<i>0</i>	<i>40</i>	[REDACTED]
TC-related indicator	<i>Cybersecurity controls implemented according to</i>	<i>Company will benefit from a Digital Hub TC to assess and enhance cybersecurity capabilities</i>	<i>No</i>	<i>Yes</i>	

	<i>accepted standards/frameworks</i>	<i>related to grid-resilience and standards for grid-connected distributed energy resources.</i>			[REDACTED]
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3. KEY PARTIES

3.1 BORROWER

CGES, the Montenegrin electricity transmission system owner and operator, underwent legal unbundling from EPCG in March 2009. As a joint stock company under Montenegrin law, it is 55% owned by the government of Montenegro, with 22% stake held by Terna SpA (Terna, the Italian TSO) and 15% stake held by Elektromreža Srbije a.d. Beograd (EMS, the Serbian TSO). The remainder of CGES's shares are held by investment funds and retail investors, with trading conducted on the Montenegro Stock Exchange. In 2024, CGES recorded revenues of EUR 100 million, EBITDA of EUR 42 million, and net profit of EUR 25 million, employing 340 staff as of December 2024.

Montenegro's electricity system is interconnected with Albania, BiH, Serbia, and Kosovo, with Montenegro presently functioning as a net electricity importer. Domestic generation primarily relies on hydro power, which proves notably cost-effective compared to imports.

REGAGEN, the Energy Regulatory Agency of Montenegro, established in January 2004, regulates CGES's revenues. REGAGEN issues transmission tariff methodologies, determines CGES's permitted revenues, and sets transmission tariffs. CGES operates under a triennial regulatory period specified in the tariff methodology. The regulator determines permitted revenues and resulting transmission tariffs for each of the three years before the commencement of the regulatory period. This methodology enables CGES to recover operating costs and capital expenditures, which are reflected in the regulator's latest tariff determination for the upcoming regulatory period.

3.2 GUARANTOR

The Guarantor for the Project is the Government of Montenegro ("GoM"), represented by the Ministry of Finance. In March 2025, S&P confirmed Montenegro's long- and short-term foreign and local currency credit ratings at 'B+' with a stable outlook. Similarly, in April 2025, Moody's affirmed Montenegro's long-term sovereign credit rating at 'Baa3', with a stable outlook.

Montenegro is one of the smallest countries in Europe with a total area of approximately 13,800 km², population of slightly over 600,000 inhabitants and an open economy strongly dependent on tourism. The country's service sector, comprising almost 60 per cent of GDP and employing 73 per cent of workers, has seen steady growth, averaging below 3 per cent annually over the past decade.

In 2024, economic growth slowed to 3.0 per cent whereas in the first half of 2025, real GDP grew by 3.2 per cent year-on-year.

4. MARKET CONTEXT

Montenegro has made considerable progress towards meeting its Energy Community Treaty obligations and in liberalising its energy sector. Generation, transmission and distribution are fully unbundled. The transmission and distribution tariffs are regulated by an independent regulatory body. The wholesale market is formally deregulated. Montenegro has an open market without regulatory obstacles for new entrants and competition. However, market concentration remains very high with the incumbent covering the whole retail market.

Montenegro's electricity market has an installed capacity of 1,067 MW, primarily owned by state utility EPCG (approximately 874 MW, 82%). The capacity includes two major hydroelectric power plants (HPPs) totalling 649 MW, a coal-fired Thermal Power Plant (TPP) Pljevlja with a capacity of 225 MW and 5 mini hydro power plants. HPPs contribute approximately 45-55% of Montenegro's total electricity output, varying based on annual hydrological conditions.

The power exchange company MEPX (Montenegro Power Exchange) has awarded a contract for providing of day-ahead trading, clearing and settlement platform services to a consortium of companies. The Day-Ahead Market (DAM), the first fully operational segment of MEPX, went live on 26 April 2023.

Montenegro's strategic geographical position makes it an important hub for energy trade within the Balkans, with interconnections to BiH, Serbia, Kosovo, Albania, and a recent link to Italy via an undersea cable which is expected to double from 600 MW to 1,200 MW in the future.

Montenegro's decarbonization initiative includes commitments to abstain from developing new coal capacity and significant investments in renewable energy. Initiatives such as the region's inaugural CO₂ emissions trading scheme and a pledge to shut down the coal-fired power plant by 2040 highlight Montenegro's dedication to the green agenda. Montenegro is developing a National Energy and Climate Plan (NECP) with assistance from German GIZ, serving as a roadmap toward sustainable energy practices.

The Government, with support from the EBRD, aims to attract private investments in renewable energy through organized auctions, accompanied by reforms to the regulatory framework. The new Renewable Energy Law and the launch of the first renewable energy auction in Montenegro in July 2025, represent key step forward in advancing the country's energy transition and aligning with its EU reform agenda. The auction is expected to deliver at least 250 MW of new solar capacity to further accelerate Montenegro's transition to a greener and more resilient energy landscape.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Category B (ESP 2024). The change of insulation on an existing transmission line is associated with site-specific Environmental and Social impacts, which can be readily addressed and mitigated with the implementation of an ESAP. ESDD has been carried out by an external party and consisted in a review of client capacity and management plan, stakeholders' engagement activities around the Project and E&S sensitive receptors alongside the corridor of the existing line. The existing line encroaches a National Park (no towers but only cables passing through), and the Project is thus subject to review by the Environmental Protection Agency as per national legislation and included a critical habitat assessment by the Bank as part of our ESDD. The need for an Environmental Impact assessment prior to permitting is currently being assessed by the competent authority following a request from CGES.

CGES is an existing client of the Bank and has the institutional capacity to structure the Project to EBRD ESRs.

On 11 December, IPAM registered the request [IPAM case number 2025/11] received from a community group based in Brezna, Montenegro with regards to the EBRD's project Substation Brezna Project (54749). Key concerns raised in the complaint include alleged project induced risk to the existence and sustainable future of the village, increased noise and electromagnetic fields, with potential health risks, loss of property value and erosion of economic activity including eco-tourism. The case is currently in the Assessment Stage to determine whether it will be processed under Problem Solving or Compliance. [REDACTED]

The ESDD confirmed that overall, the Company has a robust ESG system and E&S procedures in place, including ISO-certified Environmental and Health & Safety Management systems. Such systems will be cascaded to the Project. Management plans will be developed by the contractor and cascaded as appropriate to sub-contractors. CGES has comprehensive labour policy and procedures in place, including worker grievance mechanism and Code of Conduct for suppliers. Health and Safety Management plans will be prepared to address both occupational and community risks, including traffic, noise, exposure to electromagnetic field, and emergency response. CGES will be required to develop a robust monitoring framework of the management plans, including relevant trainings, to ensure appropriate cascading of the procedures to the workforce and overall compliance with EBRD ESR2 and ESR4. Limited workforce is expected to complete the project, and no worker accommodation is contemplated.

The Project will not result in new land being permanently used, but temporary land use will be necessary to enable machinery access and stringing operations. The ESDD demonstrated that sensitive receptors (households, vineyards) are present in the immediate vicinity of three pylons, and the work will be

organised to avoid impact on land (including land access), health and safety or power supply disruption of the surrounding communities, with specific attention to vulnerable people. Any unlikely damage on land or disruption on land access would be addressed and compensated in line with EBRD ESR 5. The work will be scheduled to avoid any service disruption on the railway in the immediate vicinity of a portion of the corridor.

The existing line corridor traverses several Important Bird Areas (IBA), including the Nature Park Zeta River and the candidate Emerald site Čemovsko Polje. Specific training will be provided to any workers in these areas, and the breeding season will be avoided to phase out any impact during Project work. One tower of the line is located in the active protection zone of the park, considered Critical Habitat, and any activity will be structured to ensure a Net Gain of biodiversity as required by EBRD ESR6. Strict site restoration of the limited storage zone needed for the Project will be applied in the area, vegetation clearance will be prohibited, and any other conditions of the permit would be monitored and complied with. Reviews of the existing biodiversity baseline in the sensitive areas identified several breeding and resident birds Priority Biodiversity Features (grey partridge, Eurasian stone-curlew, griffon vultures). Although the Project will not result in additional long-term impacts on the avifauna in these areas, and bird flight divertors will be installed as required on the corresponding portions of the line to limit impact of the existing infrastructure on these species. Through the upgrade of the line, the Bank will explore ways to reduce environmental impact, notably on avifauna, which will result in an No Net Loss and Net Gain as per ESR6. These conditionalities and corresponding management frameworks are included in the NTS and ESAP.

A Stakeholder Engagement Plan ("SEP") including a grievance process has been developed for the Project. Early engagement with the authorities and adjacent communities has been undertaken, a dedicated Community Liaison Officer will be designated for the Project before the beginning of the work, responsible for the implementation of the SEP and management of external grievances throughout the lifetime of the Project. NTS and SEP will be disclosed on Bank and CGES's websites in English and Montenegrin prior to Board consideration.

An Environmental and Social Action Plan ("ESAP") has been agreed with CGES. The Bank will closely monitor the implementation of the Project through annual E&S reporting from CGES and site visits as necessary.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on CGES, its Board of Directors and executive management. [REDACTED]

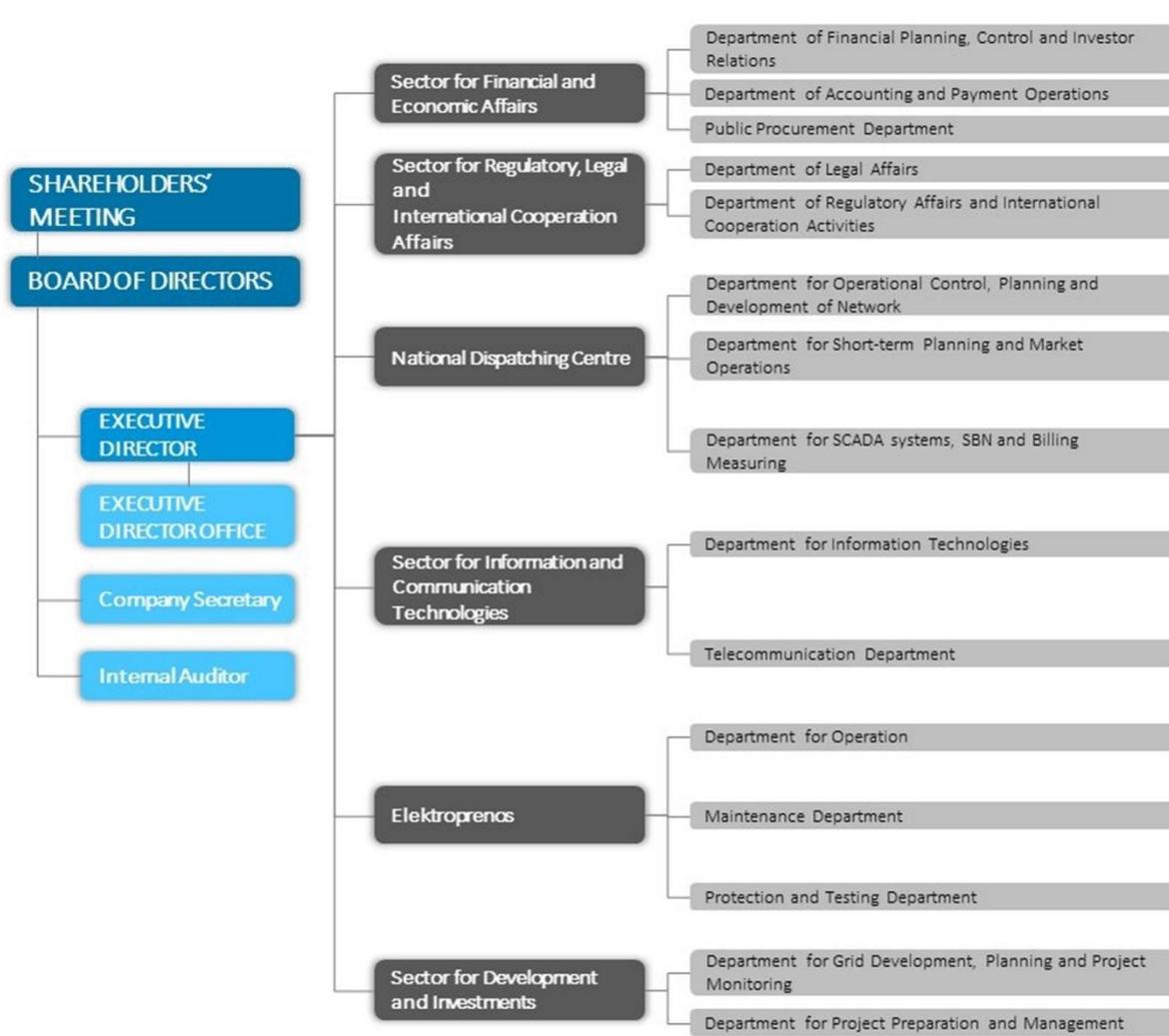
All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding and Organisation Structure
ANNEX 2	Historical Financial Statements
ANNEX 3	Project Implementation (Procurement Plan)
ANNEX 4	Transition Impact Scoring Chart
ANNEX 5	Green Assessment Summary

ANNEX 1 – SHAREHOLDING AND ORGANISATION STRUCTURE

Owner	% of shares
Montenegro	55.4%
Terna - Rete elettrica nazionale S.p.A.	22.1%
Elektromreža Srbije Beograd	15.0%
Other <0.5% each	7.5%
Total	100%



ANNEX 2 – HISTORICAL FINANCIAL STATEMENTS

[REDACTED]

ANNEX 3 – PROJECT IMPLEMENTATION (PROCUREMENT PLAN)

PROJECT IMPLEMENTATION

[REDACTED]

The client is CGES, the Montenegrin transmission system operator that owns and operates substations and transmission lines at 400kV, 220kV, and 110kV voltage level.

CGES is an existing client of the Bank, familiar with EBRD procurement rules and procedures. The Company is currently implementing a similar project in accordance with EBRD rules and procedures, that is progressing according to schedule.

CGES will establish the Project Implementation Unit (PIU) for the purpose of implementation of the Project. The PIU will be supported by a procurement consultant, which will support the Company with the procurement of the CAPEX contract in accordance with EBRD Procurement Policies and Rules (PP&R).

Contracts risk assessment – Low/Moderate

The CAPEX contract proposed to be financed from the Bank's loan is detailed in the attached Procurement Plan. The contract will cover the procurement of HTLS conductors and related equipment for the reconductoring of the Montenegrin section of the 220 kV overhead transmission line, together with the related installation. The nature of this contract can be considered of moderate complexity and has a relatively low degree of implementation risk, as the activities under its scope are part of the regular operations of CGES.

The residual implementation risk will be mitigated by the appointment of a procurement consultant that will support the Company with procurement, ensuring that tender documents are suitable for open tendering and aligned with the Bank's PP&R.

Project implementation arrangements:

The Project will be implemented by CGES, which oversees the operation and maintenance of the transmission system in Montenegro. The PIU will be established by CGES and will be supported by a procurement consultant that will assist the PIU in procurement and in meeting the requirements of the EBRD PP&R. These arrangements will address the risks and support smooth project implementation.

It is envisaged that CGES will oversee the implementation of the CAPEX contract in the role of "Project Manager", in accordance with the provisions of the conditions of contract, as it has previously undertaken this role under similar transmission line contracts financed with its own resources.

Procurement arrangements:

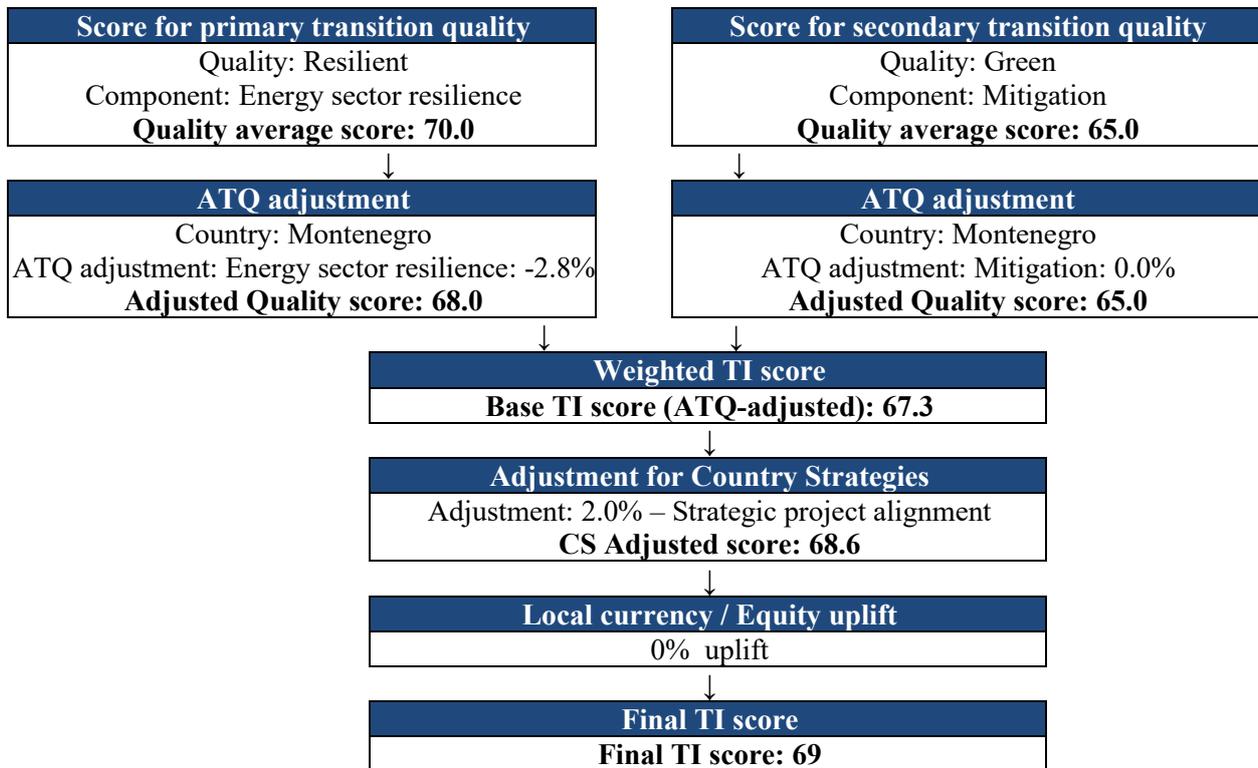
The CAPEX contract will be procured following open tendering procedures in accordance with the requirements of the Bank's PP&R for public sector operations. It is envisaged that the Bank's standard procurement documents incorporating the conditions of contract for Supply and Installation of plant and equipment will be used.

The Project also envisages one contract for procurement consultant, which will be appointed directly in accordance with the provisions of the PP&R.

The contracts will be tendered via the EBRD Client E-Procurement Portal (ECEPP) and will be subject to prior review.

[REDACTED]

ANNEX 4 - TRANSITION IMPACT SCORING CHART



ANNEX 5 – GREEN ASSESSMENTS

SUMMARY

- The Project is financing reconducting of the 220kV transmission line including an increase of capacity from 300MW to 600MW. The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement**.
- The Project is attributed **100% Green finance**.
- Climate-related financial risks have been assessed [REDACTED].

PARIS ALIGNMENT ASSESSMENT

For Direct finance projects

Alignment with the mitigation goals of Paris Agreement - General screening

The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The Project's activity is included in the 'MDBs' aligned list' under the category Energy, Electricity transmission and distribution, including energy access, energy storage and demand side management.
- There are no activities included in the 'non-aligned list'.

Alignment with the adaptation goals of Paris Agreement

The Project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. Material physical climate risks have been addressed.

Step 1: The screening performed under Step 1 indicates that the Project faces potentially material physical climate risks: extreme heat events and heavy rainfall.

Step 2: During the due diligence phase these risks were further assessed, and the results summarised below.

Hazards	Materiality		Climate resilience measures
	Exposure	Sensitivity	Climate resilience measures
Extreme Heat Events	Projections show that the temperature in that area can rise above 35-40°C, we see that operating temperatures of the conductors are much higher (between 80-180°) thus a 5° difference should not have much of an influence on operation	Extreme heat sensitivity is relevant as various electrical components may fail during extreme events. The Project is an OHTL reconducting and therefore has relatively low human occupancy , as such, heat impacts to staff is not considered in scope.	The Project is about to replace the existing conductor with a HTLS conductor. This replacement will also require the replacement of insulator strings and hardware fittings. The existing clamps will be replaced by clamps resistant to extreme heat, appropriate for the high temperature conductor. Hence, extreme operating temperatures of the conductor will not be transferred on the insulator strings and steel tower parts.
Heavy rainfall	The OHLs Trebinje-Perucica-Podgorica-Vau Dejes are in operation for a few decades and CGES is in charge for operation and maintenance of the lines. According to CGES there were no major failures on the	Heavy rain impacts on OHLs include flashover risks when water droplets or continuous rain streams reduce the insulation properties of air gaps and insulators, while indirect effects manifest through rainfall-induced landslides,	Maintenance department is obliged to make a detailed survey of all tower locations twice per year. Flashover risk will be mitigated through renovations being done in the Project scope. Heavy rainfalls may be related to appropriate conditions for

	<p>lines during all the operation time, including the events of heavy raining, landslides or flooding.</p> <p>In-house assessment resulted in moderate flood risk in the project boundary based on multiple datasets projecting an extreme 1-in-500-year flood, simulated under a pessimistic climate change scenario with four towers exposed and a moderate landslide risk with 161 towers exposed.</p>	<p>flooding, and soil erosion that can undermine tower foundations or cause structural failures.</p>	<p>construction works. As laid out in the ESAP, the contractor shall prepare the relevant documentation referring to construction works, as well as a Health & Safety Manual, that shall address the conditions for presence and work on site. This shall also include potential impact on construction access roads and drainage measures to protect the construction sites and access roads in case of rainfalls.</p>
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Step 3: The Project is unlikely to have an impact on the climate resilience of the wider system in which it operates.

CLIMATE RELATED FINANCIAL RISK**Carbon transition risk**

Final carbon transition risk score for the key counterparty of risk	2
Evaluation of carbon transition risks for the key counterparty of risk	n/a

Physical climate risk

Final physical climate risk score for the key counterparty of risk	2
Evaluation of the physical climate risk for the key counterparty of risk (if n/a different from the Borrower)	

GREEN FINANCE ATTRIBUTION

The Project is attributed 100% green finance. This share has been calculated in line with EBRD's Methodology to determine the green finance attribution of EBRD investment, furthermore following Route 1 for the defined green use of proceeds.

Project is claiming 100% climate change mitigation finance following additional guidance from Common Principles for Climate Mitigation Finance Tracking (Table 2, Transport of electricity, and Energy Transport).

As the Project is doubling the transmission capacity of the 220kV line (from 300MW to 600MW), the Project is split into brownfield (300MW) and greenfield (remaining 300MW) parts:

- Brownfield part is applying guidance and criteria from above mentioned Common Principles related to: Energy transport, Brownfield efficiency improvement or reduction of CO_{2e} emissions in transmission or distribution of electricity. heat, cold, low-carbon gases or CO₂. The new line will have lower electrical losses which will result in 9.1ktons of annual CO₂ emissions reduction and 69,721 GJ of primary energy savings. That being said, green finance attribution is fully applied for this part (ie 50%).
- Greenfield part is applying guidance and criteria from above mentioned Common Principles related to: Transport of electricity. Greenfield transmission or distribution of electricity that supports delivery of non nuclear, very low carbon electricity. As this is an interconnection between grid systems, criteria (4) under this category has been followed. Montenegro, Albania, and BIH are planning to reduce the electricity generation coming from the fossil fuel power plants, hence the interconnection line will enable more electricity coming from renewable energy power plants. This results in 50% green finance attribution.

Additionally, Project is claiming 30% climate adaptation finance as the new line will improve Project's climate resilience to the heavy rainfall events. The Project will upgrade ageing transmission lines with new equipment with higher resilience towards flashover risks. Moreover, operational maintenance practices will be implemented by regularly monitoring the structural component's condition towards resilience to physical climate risks. This adds resilience at a system level by reducing the impact of extreme weather events on the connected economic region and making the activity adapted.

[REDACTED]

**Including any important comments and reference baseline values against which any reported data are to be compared. Where reporting KPIs are relative to Baseline, the OL should specify Baseline performance in absolute terms.*

*** note that the KPIs placed under the ESAP or as standalone covenants will not be included under the GPMP Exhibit of the loan agreement*