

State owned energy company Elektroprivreda Srbije EPS is also preparing for the necessary changes that Croatian and Montenegrin national electricity companies went through. According to announcements from EPS' Director Aleksandar Obradović, the restructuring of EPS, in accordance with adopted Statute, includes introduction of unique management and standardization of processes and procedures within EPS' system. Previous organization didn't allow EPS to organize work in its daughter companies (subsidiaries). Subsidiaries were organized according to their own constitutive acts, which do not recognize EPS as a whole, and define subsidiaries as independent enterprises.

National electric power companies of Croatia and Montenegro, HEP and EPCG, have gone through organizational changes that are, in days ahead of us, expecting EPS as well. The long awaited restructuring of EPS started by changing constitutive acts of its dependent companies (subsidiaries). The next step was adoption of The Restructuring plan, while changing EPS' legal form into joint-stock company is the necessary precondition in order to find its minor strategic partner.

Hrvatska Elektroprivreda (HEP Group) is Croatian's national company for electricity generation, transmission and distribution, heat supply and natural gas distribution. HEP is organized in the form of a holding company with a number of daughter companies (dependent societies/ subsidiary companies), some of which are: HEP Proizvodnja d.o.o. (HEP Generation), HEP Operator distribucijskog sustava d.o.o. (HEP Distribution System Operator), HEP Opskrba d.o.o. (HEP Supply), HEP Trgovina d.o.o. (HEP Trade), HEP Obnovljivi izvori energije d.o.o. (HEP Renewable Energy Sources). The majority of subsidiary companies were established during the reorganization in accordance with energy laws which came into force in 2002.

The parent company of the Group, HEP d.d., performs the function of HEP Group corporate management. Within holding there is a clear division (managerial, accounting, and legal) of companies which perform regulated activities (transmission and distribution) from non-regulated ones (generation and supply). Status changes of HEP Operator prenosnog Sistema, now HOPS, were performed in 2013. In order to separate activities in accordance with The Electric energy market law and decision from HEP's general meeting of shareholders (shareholders' assembly). According to HEP's Statute adopted in 2013. Its company bodies are: Management, Supervisory board and Shareholders' Assembly. Opening of Croatia's electricity energy market started ten years ago, and since 2008. consumers have the right to choose their supplier. Stronger competition in the market showed up in 2013. with wholesale prices downfall. HEP's biggest competitors are Slovenian GEN-I and German RWE Energy. GEN-I and RWE found a way to provide cheaper electricity, owing it to favourable hydrological conditions, and situation in the market. In that manner, in 2013. GEN-I offered electricity to households and entrepreneurs, with 30% lower price, compared to HEP Opskrba, with a guarantee that there won't be any price

increase until the end of 2015. That aside, GEN-I offered gratuitous electricity in the first month to their first buyers. GEN-I's ambition is to win 17% of market share in the next two years, while RWE expects their market share to be 10%.

HEP's response to this actions of its competitors was in changing the tariff, which resulted in 6-7% lower electricity bills. However, this price lowering effect was annulled in great part, when the Government adopted the Decision about increasing fee for renewable energy sources.

This was the introduction in real market war between HEP and private electricity suppliers. GEN-I answered to this HEP's step with announcement of additional 8,2% electricity price cut, which will make GEN-I 10% cheaper in all tariffs, compared to HEP. RWE Energy also announced adjustment of its prices, in order to lower its offer in comparison to HEP as dominating supplier.

When HEP became gas supplier in wholesale market, in the first quarter of 2014. that meant that gas will be procured at regulated price in the next three years. This measure postponed complete liberalization of gas market, protecting citizens from prospective gas price increase. According to an explanation of competent Ministry (in charge), HEP won't be making any profit by selling gas, but it could receive minimum revenue, which will help HEP to bear more easily loss in electricity market share.

However, electricity market share loss is not very big at this moment, and amounts (to) only 4, 75%. HEP officials expect that, electricity prices in stock exchange will rise in mid-time term, narrowing its trading potential, and that only those companies with their own electricity production, will have steady business.

Montenegrin National electricity company EPCG was founded by the Decision of transforming Public enterprise „Elektroprivreda Crne Gore“in 1998., with a mission to provide generation, distribution and supply of electricity. In 2009. Montenegrin Government signed a contract with Italian company A2A, about selling part of its shares and recapitalization. After buying shares from small shareholders, A2A became the owner of 43,7% of EPCG shares. The agreement between the Government and the company envisioned that A2A performs executive management, and new organization implied centralization and modernization of EPCG.

EPCG company bodies are Meeting of shareholders, Board of Directors, Management and Secretary. Management consists of Chief Executive Officer, and beneath him there are Chief Financial Officer, Chief Operational officer and Director of Main Directorate of Human Resources. Within Main Directorate for Operational management, headed by Chief Operational officer, there is one Organizational unit - Energy management, and three Functional units: Distribution, Supply and Generation (comprised of two hydro power plants “Perućica” and “Piva”, and one thermo power plant “Pljevlja).

Shareholders' meeting of EPCG adopted the decision about converting 45 million EUR of tax

debt into share capital. A2A suggested repaying debt by issuing shares to existing shareholders, at the price of 1 cent EUR, but without using their right to write off their part of shares. By nominal price, the value of those shares is 45 million EUR. That led to an increase in state ownership in EPCG, from 55 to 57%.

The second problem was EPCG's 45 million EUR claim towards company KAP, and KAP's new owner request for allowing KAP to buy electricity at the price of 38 EUR/kwh. According to Montenegrin media, the stumbling stone might be nonexistence of unique position about building the second block of "Pljevlja" thermo power plant. The destiny of EPCG, according to official statements, will be known by the end of October, after The Shareholders' meeting, where the decision about renewing or cancelling the contract with A2A, will be made.

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In 2005. The Government decided to single out the transmission system, establishing Public enterprise for electricity transmission "Elektromreža Srbije" (EMS). In accordance with Energy Law, on the 1st of July 2013., EPS founded new company - "EPS Supply", dividing that way the supply and distribution of electricity, which was the necessary step for the second phase of market liberalization. All distributors use the same distribution network, service provided by distribution system operator.

On the 31st of July 2014. Serbian Government adopted changes of constitutive acts of EPS subsidiaries, and next step is the adoption of The Corporatization plan, planned (and postponed again) for the end of August. The decision about when is EPS going to change its legal form from public limited company to joint stock company is the question for its owner, The Serbian Government.

In accordance with the Law on Public Enterprises, management bodies of EPS are Supervisory board and Executive board, and the Director who holds the position of President of the Executive Board. After changing its legal form, new company body is going to be established - the shareholders' assembly. Serbian government remains majority owner of EPS, and 15% of equity stock is going to be shared by all legal aged Serbian citizens. 7-8% of equity stock is going to be shared by former and current employees of EPS. After establishment of the shareholders' assembly, The Government will transfer all company management to that body, and that will be the major change that Corporatization will bring.

It should also be noted that the Government, as EPS' majority owner will hold the majority in the shareholders' assembly, in the name of the State. However, beside the Government and Serbian citizens, the key issue is who will become the owner of the shares that are going to be offered in stock exchange.

EPS' greatest problems, besides removing damages caused by floods, are low level of payments for delivered electricity, and significant network loss. In order for EPS to become successful enterprise, The Government should withdraw itself from company's management, and new professional management should be selected on the basis of expertise, and not on the basis of political affiliation. Besides that, management should overtake all responsibility, and social role of EPS as a helper for poor citizens and unsuccessful enterprises, should be abolished.