

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) OR (2) PERSONS LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus following this page (the "**Prospectus**") and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer (as defined in the Prospectus), Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG or Société Générale (together, the "**Joint Lead Managers**") as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE PROSPECTUS IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE PROSPECTUS.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (2) located outside the United States. The Prospectus is being sent to you at your request, and by accessing the Prospectus you shall be deemed to have represented to the Issuer and each Joint Lead Manager that (1) either (a) you and any customers you represent are QIBs or (b) you and any customers you represent are purchasing the securities being offered in an offshore transaction (within the meaning of Regulation S under the Securities Act) and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of the Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and a Joint Lead Manager or any affiliate of a Joint Lead Manager is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by such Joint Lead Manager or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within articles 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer and the Joint Lead Managers, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from each of the Joint Lead Managers.

PROSPECTUS



MONTENEGRO

acting through its Ministry of Finance

EUR 500,000,000
3.875 per cent. Notes due 2020

Issue Price: 99.444 per cent.

The issue price of the EUR 500,000,000 3.875 per cent. Notes due 2020 (the "**Notes**") issued by the State of Montenegro, represented by the Government of Montenegro, acting by and through its Ministry of Finance (the "**Issuer**" or "**Montenegro**") is 99.444 per cent. of their principal amount (the "**Issue Price**"). The Notes will be redeemed at their principal amount on 18 March 2020. The Notes are not redeemable prior to maturity.

Interest on the Notes is payable annually in arrear on 18 March of each year.

All payments in respect of the Notes will be made by or on behalf of the Issuer without withholding or deduction for or on account of taxes imposed or levied by or within Montenegro or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. As at the date of this Prospectus, withholding tax of 9 per cent. is applicable under Montenegrin law to payments of interest in respect of the Notes, except where any applicable double taxation treaty stipulates otherwise. If payments in respect of the Notes are subject to withholding or deduction for any such tax, pursuant to Condition 10 (*Taxation*) of the Terms and Conditions of the Notes, the Issuer has agreed to pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject only to the exceptions set out in that Condition. See "*Terms and Conditions of the Notes — Condition 10 (Taxation)*" and "*Taxation*".

Application has been made to the Financial Conduct Authority (the "**UK Listing Authority**") under Part VI of the Financial Services and Markets Act 2000 for the Notes to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC.

The Notes are being offered inside the United States to QIBs (as defined below) only pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). In addition, Notes are being offered outside the United States in reliance on Regulation S ("**Regulation S**", such Notes so offered and sold, the "**Regulation S Notes**") under the Securities Act.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject

to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Notes are being offered, sold or delivered: (a) in the United States only to qualified institutional buyers ("**QIBs**") (as defined in Rule 144A ("**Rule 144A**") under the Securities Act) in reliance on, and in compliance with, Rule 144A; and (b) outside the United States in reliance on Regulation S. Each purchaser of the Notes is hereby notified that the offer and sale of Notes to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A (such Notes so offered and sold, the "**Rule 144A Notes**"). Transfers of Notes are subject to the restrictions described under "*Summary of the Notes in Global Form and Transfer Restrictions*".

THE NOTES HAVE NOT BEEN NOR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Notes are assigned a rating of Ba3 by Moody's Investors Service, Inc. ("**Moody's**") and B+ by Standard & Poor's Credit Market Services Europe Ltd. ("**S&P**"). Each of Moody's and S&P is established in the European Union and registered under Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**"). Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Notes will be issued, offered and sold in registered form in denominations of EUR100,000 and integral multiples of EUR1,000 in excess thereof. The Regulation S Notes will be represented by beneficial interests in a global unrestricted note certificate (the "**Regulation S Global Note**") in registered form without interest coupons attached and the Rule 144A Notes will initially be represented by a global restricted note certificate (the "**Rule 144A Global Note**" and, together with the Regulation S Global Note, the "**Global Notes**") in registered form, without interest coupons attached, which will both be registered in the name of a nominee for, and deposited on or about 18 March 2015 (the "**Closing Date**") with Citibank Europe plc as common depositary (the "**Common Depositary**") for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. Individual note certificates (the "**Definitive Note Certificates**") evidencing holdings of Notes will be available only in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form and Transfer Restrictions*".

INVESTING IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "*RISK FACTORS*" BEGINNING ON PAGE 9.

Joint Lead Managers

CITIGROUP DEUTSCHE BANK ERSTE GROUP

**SOCIÉTÉ GÉNÉRALE
CORPORATE & INVESTMENT BANKING**

The date of this Prospectus is 13 March 2015

This Prospectus constitutes a prospectus for the purpose of Article 5 of Directive 2003/71/EC as amended, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area (the "**Prospectus Directive**"). The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Joint Lead Managers and their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by any of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Issuer, the Joint Lead Managers or any of their directors, affiliates, advisers or agents. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, imply that there has been no change in the affairs of the Issuer since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "*Subscription and Sale*".

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the Market. The Issuer and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. The Joint Lead Managers are not U.S. registered broker-dealers and will not effect any sales of the Notes in the United States unless it is through one or more other U.S. registered broker-dealers as permitted by the Financial Industry Regulatory Authority, Inc.'s regulations or any other applicable U.S. laws and regulations. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- (iv) understand thoroughly the terms of the Notes; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk based capital or similar rules.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA 421-B**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

STABILISATION

In connection with the issue of the Notes, Société Générale (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

SERVICE OF PROCESS AND ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer is a sovereign state. Consequently, it may be difficult for investors to obtain or realise upon judgments of courts in England against the Issuer without compliance with the Montenegrin enforcement procedure for foreign judgments. In addition, it may be difficult to enforce arbitral awards in Montenegro or it may not be possible for investors to effect service of process within the United States upon the Issuer or to enforce against the Issuer in or through courts located in the United States judgments obtained in courts located in the United States, respectively, or elsewhere, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

It may not be possible to enforce in the courts of Montenegro any foreign court judgment (including a judgment obtained from a United States court) or arbitral award against Montenegro that is predicated upon the laws of a foreign jurisdiction, such as English law, without a re-examination of the merits of such judgment in the Montenegrin courts, although a re-examination of the merits of a judgment will generally not be conducted according to Montenegrin law.

The Notes and the Fiscal Agency Agreement including any non-contractual obligations arising out of or in connection with the Notes and the Fiscal Agency Agreement, are governed by English law and the Issuer has agreed that any claims or disputes arising thereunder shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration. Montenegro is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, with the reservations of reciprocity, commercial disputes and retroactive application of the Convention.

To the extent that the Issuer may in any jurisdiction claim or acquire for itself or its assets immunity from jurisdiction, suit, execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer has irrevocably consented to the enforcement of any judgment or award, agreed not to claim and irrevocably waived such immunity to the fullest extent permitted by the laws of the jurisdiction (other than immunity in respect of (a) property used by diplomatic or consular mission of the Issuer or (b) property, weapons, equipment and funds serving the purpose of state security and defence or (c) assets that are non-tradable (*res extra commercium*), natural resources and goods in general use or (d) receivables of Montenegro on the basis of taxes, contributions and customs, which is expressly not waived).

There is a risk that, notwithstanding the limited waiver of sovereign immunity by Montenegro in connection with the Notes, a foreign court judgment or arbitral award would not be recognised in Montenegro or enforced against certain assets of Montenegro in certain jurisdictions, including Montenegro (including the imposition of any arrest order or the attachment or seizure of such assets and their subsequent sale), without Montenegro having specifically consented to such enforcement at the time when the enforcement is sought. See "*Risk Factors—Risk Factors Relating to Montenegro—A claimant may not be able to enforce a court judgment or arbitral award against certain assets of Montenegro in certain jurisdictions*".

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

All references in this Prospectus to the "**Government**" and the "**Parliament**" are to the central government and the parliament of Montenegro, respectively.

Unless otherwise specified or the context so requires, references to "**U.S. Dollars**" and "**U.S.\$**" are to United States dollars, references to "**euro**", "**EUR**" and "**E**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community as amended, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area and references to "**SDR**" are to special drawing rights allocated by the International Monetary Fund ("**IMF**").

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category or item of information may vary slightly reflecting such rounding and figures shown as totals (including those presented in tables) may not be an arithmetic aggregation of their components.

Gross Domestic Product ("**GDP**") is a measure of the total value of final products and services produced in a country. "**Nominal GDP**" measures the total value of final production in current prices. "**Real GDP**" measures the total value of final production in constant prices, thus allowing historical GDP comparisons that exclude the effect of inflation. Unless otherwise stated, references in this Prospectus to "**GDP**" are to Nominal GDP figures.

References to laws, including the Budget, refer to such laws (and the Budget), as amended from time-to-time.

Unless otherwise stated, all annual information, including budgetary information for Montenegro, is based on calendar years. Unless otherwise stated, all budgetary and statistical information as at and for the year ended 31 December 2014 is preliminary and subject to revision and amendment.

Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the Statistical Office of Montenegro ("**MONSTAT**"), the Ministry of Finance, the Employment Agency of

Montenegro and the Central Bank of Montenegro (the "**Central Bank**" or "**CBM**"). Similar statistics may be obtained from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary significantly from source to source. See "*Risk Factors—Risk Factors Relating to Montenegro—Official economic data may not be accurate and could be revised*". Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards. However, as far as the Government is aware and is able to ascertain from the information published by these entities, the information has been accurately reproduced and no facts have been omitted which would render the reproduced information inaccurate or misleading.

The last census in Montenegro was performed in 2011. Unless otherwise stated, estimates of total population, including estimates used to calculate per capita data, are based on MONSTAT's annual population estimates. See "*Montenegro—Geography and Population*" and "*Risk Factors—Risk Factors Relating to Montenegro—Official economic data may not be accurate and could be revised*".

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Prospectus, as well as written and oral statements that Montenegro and its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, are or may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). However, this Prospectus is not entitled to the benefit of the safe harbour created thereby. Statements that are not historical facts, including, without limitation, statements about Montenegro's beliefs and expectations, are forward-looking statements. Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, plans or intentions, involve a number of risks and uncertainties. These statements are based on current plans, objectives, assumptions, estimates, projections or methods that may be incorrect or imprecise and that may be incapable of being realised. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as at the date on which they are made and Montenegro undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. Montenegro cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to: (i) plans with respect to the implementation of economic policies and the pace of economic and legal reforms; (ii) expectations about the behaviour of the economy if certain economic and fiscal policies are implemented; (iii) the outlook for inflation, exchange rates, interest rates, foreign investment, trade and fiscal accounts; and (iv) estimates of debt repayment and debt service.

In addition to the factors described in this Prospectus, including, but not limited to, those discussed under "*Risk Factors*", the following factors, among others, could cause future results to differ materially from those expressed in any forward-looking statements made herein:

- (i) decisions of international organisations regarding the terms of their financial assistance to Montenegro and accordingly the net flow to or from such international organisations over the life of the Notes;
- (ii) adverse external factors, such as changes in the credit rating of Montenegro, higher international interest rates, low commodity prices or recession or low growth in Montenegro's trading partners or increases in world commodities prices, which could each decrease Montenegro's fiscal and foreign exchange revenues and could negatively affect the current account, balance of payments and international reserves and cause or contribute to recession or low growth in Montenegro;
- (iii) adverse domestic factors, such as recession, decline in foreign direct investment ("FDI") and portfolio investment, high domestic inflation, high domestic interest rates, difficulties in borrowing in the domestic and foreign markets, changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations), trade and political consensus,

any of which could lead to lower growth in Montenegro and lower international currency reserves;

- (iv) relations with creditors;
- (v) decisions of international financial institutions such as the World Bank, the European Bank for Reconstruction and Development (the "EBRD") and the European Investment Bank (the "EIB") regarding the provision of funding for new or existing projects over the life of the Notes; and
- (vi) political factors in Montenegro, which may affect the timing and structure of economic reforms, the climate for FDI and the pace, scale and timing of privatisations.

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OVERVIEW OF THE OFFERING

The following is an overview of certain information contained in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set out in the section entitled "*Risk Factors*" in this Prospectus prior to making an investment decision. See "*Montenegro*", "*The Economy*", "*Balance of Payments and Foreign Trade*", "*Monetary and Financial System*", "*Public Finance*" and "*Indebtedness*" for a more detailed description of the Issuer.

Capitalised terms not otherwise defined in this overview have the same meaning as in the terms and conditions of the Notes (the "Conditions"). See the Conditions for a more detailed description of the Notes.

Issuer	Montenegro (acting through its Ministry of Finance).
Notes Offered	EUR 500,000,000 3.875 per cent. Notes due 2020.
Issue Date	18 March 2015.
Maturity Date	18 March 2020 (the " Maturity Date ").
Interest on the Notes	3.875 per cent. per annum.
Interest Payment Dates	<p>Interest on the Notes will be payable annually in arrear on 18 March of each year. The first payment of interest in respect of the Notes will be made on 18 March 2016 (the "First Interest Payment Date") for the period from and including the Issue Date to but excluding the First Interest Payment Date.</p> <p><i>See "Terms and Conditions of the Notes – 7. Interest".</i></p>
Issue Price	99.444 per cent. of the principal amount of the Notes.
Yield	As at the Issue Date and on the basis of the Issue Price, the yield of the Notes is 4.000 per cent. per annum.
Redemption	<p>The Issuer will redeem the Notes at their principal amount on the Maturity Date.</p> <p><i>See "Terms and Conditions of the Notes – 9. Redemption and Purchase".</i></p>
Denominations	The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of EUR100,000 and integral multiples of EUR1,000 in excess thereof.
Status	<p>The Notes will constitute direct, general, unconditional and (subject to the provisions of a negative pledge covenant described below) unsecured obligations of the Issuer. The Notes will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other present and future unsecured obligations of the Issuer. The full faith and credit of the Issuer is pledged for the due and punctual payment of all amounts due in respect of the Notes. The Issuer is not required to effect equal or rateable payment(s) at any time with respect to any such other unsecured and unsubordinated obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured and unsubordinated obligations at the same time or as a condition of paying sums due under the Notes and <i>vice versa</i>.</p> <p><i>See "Terms and Conditions of the Notes – 4. Status".</i></p>
Negative Pledge	So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer shall not create or permit to subsist any Security Interest other than a Permitted Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any of its Public

Indebtedness or any Guarantee of any Public Indebtedness of any other person, unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or providing such other security or arrangement for the Notes as may be approved by a resolution of the requisite majority of Noteholders or written resolution of Noteholders, in each case in accordance with Condition 14 (*Meetings of Noteholders; Written Resolutions*).

See "*Terms and Conditions of the Notes – 5. Negative Pledge*".

Events of Default

The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default.

Holders of not less than 25 per cent. in aggregate principal amount of the outstanding Notes may, by written notice to the Issuer (with a copy to the Fiscal Agent at its Specified Office), declare the Notes immediately due and payable and all principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives such written notice of the declaration.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto.

See "*Terms and Conditions of the Notes – 12. Events of Default*".

Form of Notes

The Notes will be in registered form, without interest coupons.

Notes sold in offshore transactions in reliance on Regulation S will initially be in the form of a Regulation S Global Note, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary.

Notes sold to QIBs in reliance on Rule 144A will be issued initially in the form of a Rule 144A Global Note, which will be deposited outside the United States with a common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee for such common depositary.

Taxation and Additional Amounts

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Montenegro or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. As at the date of this Prospectus, withholding tax of 9 per cent. is applicable under Montenegrin law to payments of interest in respect of the Notes, except where any applicable double taxation treaty stipulates otherwise. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction had been required, subject to certain exceptions set out in "*Terms and Conditions of the Notes – 10. Taxation*".

Modification and

A summary of the provisions for convening meetings of Noteholders and

Amendment	amendments is set forth under " <i>Terms and Conditions of the Notes – 14. Meetings of Noteholders; Written Resolutions</i> " and " <i>Terms and Conditions of the Notes – 16. Noteholders' Committee</i> ".
Use of Proceeds	<p>The net proceeds of the issue of the Notes will be used for general budgetary governmental purposes of the Issuer including, without limitation, capital budget financing and may also be used for the repayment of outstanding indebtedness and to partly finance the highway construction of the Bar-Belgrade Motorway.</p> <p>See "<i>Use of Proceeds</i>".</p>
Ratings	The Notes are assigned a rating of Ba3 by Moody's and B+ by S&P. Each of Moody's and S&P is established in the European Union and Registered under the CRA Regulation A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Listing and Admission to Trading	Application has been made to admit the Notes to the Official List of the UK Listing Authority and to trading on the Market.
Governing Law	The Notes will be governed by English law.
Transfer Restrictions	<p>The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws.</p> <p>See "<i>Form of the Notes and Transfer Restrictions</i>".</p>
Fiscal Agent, Principal Paying Agent and Transfer Agent	Citibank N.A., London Branch
Registrar	Citigroup Global Markets Deutschland AG
U.S. Transfer Agent and U.S. Paying Agent	Citibank N.A.
ISINs	<p>XS1205717702 Regulation S Global Note.</p> <p>XS1205720169 Rule 144A Global Note.</p>
Common Codes	<p>120571770 Regulation S Global Note.</p> <p>120572016 Rule 144A Global Note.</p>
Overview of Montenegro	<p><i>Geography and Population</i></p> <p>Montenegro is located in South-Eastern Europe and is bordered by Croatia to the West, Bosnia and Herzegovina to the North-West, Serbia to the North-East, Kosovo to the East and Albania to the South-East. To the South-West, Montenegro has 293 kilometres of coastline on the Adriatic Sea, on the other side of which lies Italy.</p> <p>Montenegro covers an area of approximately 14,000 square kilometres. The capital and administrative centre of Montenegro is Podgorica, where the Government of Montenegro (the "Government") and most of the other state institutions are located. The historic royal capital is Cetinje where certain of the country's governmental and cultural institutions and the office of the President</p>

are located.

The total population of Montenegro is approximately 620,000, with approximately 63 per cent. of the population living in urban areas and the remainder in rural areas. The population density is approximately 44 persons per square kilometre. The highest population concentration is in the Podgorica municipality (which includes the municipalities of Tuzi and Golubovci), with a population of approximately 185,000, making up approximately 26 per cent. of the national total.

Historical Background

The history of Montenegro dates back to the ninth century with the development of Duklja, which encompassed approximately the territories of present-day Montenegro. The medieval country had three reigning dynasties before it was annexed by the Ottoman Empire at the end of the 15th century, but managed to preserve a level of autonomy throughout. Following constant rebellions by the Montenegrins against the Ottoman Empire, Montenegro became a theocracy until 1852, when Prince Danilo decided to renounce his ecclesiastical position and as a result, Montenegro became a principality.

Montenegro was the first Balkan country to achieve full independence in the Berlin Congress in 1878. In 1918, at the end of the First World War, it became part of the Kingdom of Yugoslavia ("**Yugoslavia**"), which was initially established as the union of the States of Slovenes, Croats and Serbs, and after the Second World War became a republic, one of six forming the Socialist Federal Republic of Yugoslavia. After the dissolution of Yugoslavia in 1992, Montenegro, together with Serbia, remained part of the Federal Republic of Yugoslavia. The status of the federation between Montenegro and Serbia was decided by the referendum on Montenegrin independence on 21 May 2006, and as a result Montenegro declared its independence on 3 June 2006.

Political System and Developments

Constitution

The current constitution of Montenegro (the "**Constitution**") was ratified and adopted by the Constitutional Parliament of Montenegro on 19 October 2007. The Constitution established a democratic republic with a multiparty political system. The Constitution is based on the separation of powers between the legislature, executive and judiciary. The Parliament of Montenegro subsequently adopted amendments to the Constitution on 31 July 2013, which were aimed at enhancing the independence of the judiciary.

Under the Constitution, the President of Montenegro (the "**President**") serves a five-year term and may only serve two terms. In order to be eligible for the position a person must be a citizen of Montenegro and must have lived in Montenegro for 10 of the 15 years prior to his candidature. The President proposes candidates for the role of Prime Minister of the Government (the "**Prime Minister**") who is then appointed by the Parliament. The Prime Minister, in turn, appoints Government Ministers.

Legislature

Montenegro has a single chamber Parliament, which consists of 81 elected members who are elected in a national general election for a four-year term. The Parliament passes all laws of Montenegro, ratifies international treaties, appoints the Prime Minister, adopts the budget and performs all other duties specified for it in accordance with the Constitution. Laws are passed by majority vote, except that certain laws including those which deal with certain constitutional rights and the election of the Constitutional Court judges,

Supreme State Prosecutor and members of the Council (as defined below) can only be passed by (in certain cases) a two-thirds majority of all members. The President promulgates laws validly enacted by the Parliament.

The Executive

The President is elected by universal suffrage. The current President, Mr. Filip Vujanovic, was first elected in 2003 and was then re-elected for five-year terms in 2008 and in April 2013, with 51.2 per cent. of the total vote in 2013 elections. Prior to the 2013 elections, the opposition appealed to the Constitutional Court of Montenegro to challenge Mr. Vujanovic's candidacy for the 2013 presidential elections on the grounds that under the Constitution, the President may only serve two terms and that the term commencing in 2013 would be his third term. In February 2013, the Constitutional Court of Montenegro approved Mr. Vujanović's presidential candidacy, noting that for his 2003-2008 term he was elected as the President of the Republic of Montenegro, which was a constituent entity of the State Union of Serbia and Montenegro, and that he served as *de facto* head of State of Montenegro during 2006-2008 (following Montenegro's declaration of independence in 2006) and that, consequently, the term commencing in 2008 was his first term as the President of the State of Montenegro. The President promulgates laws, calls elections for the Parliament, proposes candidates for the role of Prime Minister, confers decorations and awards and performs all other duties specified for him in accordance with the Constitution.

The national Government is organised into 16 ministries and is led by the Prime Minister, Mr. Milo Djukanovic. Mr. Djukanovic was appointed Prime Minister following elections in 2009. Mr Djukanovic resigned in December 2010 and at its session held on 29 December 2010, the Parliament appointed a new Government led by Igor Luksic, the former Deputy Prime Minister and Minister of Finance. Mr. Djukanovic was appointed the Prime Minister following elections in 2012.

Following the parliamentary elections in 2012, the Government is led by a coalition of the Democratic Party of Socialists ("**DPS**"), the Social Democratic Party ("**SDP**") and certain minority parties.

The Judicial System

Montenegro's three-tier judicial system is independent. The first level comprises the Basic courts, with the Superior courts making up the next level of the court system. The Supreme Court is the highest court in Montenegro. Other specialised courts exist to deal with commercial and administrative law matters. Judges are elected by the Judiciary Council of Montenegro (the "**Council**"). The Council is appointed for four years and consists of the President of the Supreme Court, four judges elected by the Conference of Judges, two are elected by members of the Parliament, four renowned lawyers elected by members of the Parliament and the Minister of Justice. Newly appointed judges are appointed for a four-year term and may be removed in accordance with the Constitution and the Law on Courts. In 2014, Montenegro changed the number of specialised commercial courts from two to one, thereby increasing the level of responsibility, accountability and consistency in such court. In January 2015, a special state prosecutor was appointed, who is expected to address aspects of corruption and money laundering.

The Constitutional Court consists of seven judges who are elected for nine years by the Parliament and may only serve one term. It has the authority to annul unconstitutional laws and regulations, and to decide on jurisdictional questions between the legislature, executive and judiciary. It also has the power to impeach the President. This Court's function includes protecting the

constitutional freedom and rights of citizens.

European Union Accession

Montenegro's full membership of the European Union ("EU") is a key strategic goal of the Government. The Government has had indications of overwhelming public support and cross party consensus on this issue. In July 2009, Montenegro received the Questionnaire of the European Commission (the "**Questionnaire**") as a next step towards full membership of the EU. After responding to the Commission's initial questions (673 in total), Montenegro subsequently answered 74 additional questions in the Questionnaire and submitted it to the Directorate General for Enlargement on 12 April 2010. The country's EU Stabilisation and Association Agreement (the "**SAA**") became effective on 1 May 2010, which created an institutional framework for co-operation between Montenegro and the EU and resulted in the establishment of a Stabilisation and Association Council, a Stabilisation and Association Committee, seven sub-committees and a Parliamentary Stabilisation and Association Committee. Since then, Montenegro continues to implement its obligations under the SAA. The Stabilisation and Association Council, Stabilisation and Association Committee and sub-committee meetings are held annually, while the stabilisation and association meetings between representatives of the European Parliament and the Montenegrin Parliament continue to be held bi-annually. Members of the Joint Consultative Committee, which includes representatives from the EU Committee of the Regions and Montenegro's local authorities, were appointed in March 2012. A Civil Society Joint Consultative Committee, which consists of representatives of the European Economic and Social Committee and civil society organisations of Montenegro, held its inaugural meeting in October 2012.

On 17 December 2010, the European Council recognised Montenegro's progress by granting it candidate country status. In December 2011, the European Council launched the accession process with a view to opening negotiations in June 2012. The accession negotiations with Montenegro commenced on 29 June 2012. On 8 October 2014, the European Commission adopted a progress report (the "**Progress Report**") on Montenegro which was published as part of the 2014 Enlargement Package. This was the third Progress Report on Montenegro since the country opened accession negotiations with the EU in June 2012. Until recently, Montenegro was the only country in the Western Balkans involved in accession negotiations with the EU, however Serbia commenced accession negotiations in January 2014.

The process of harmonisation with the *acquis communautaire* (the legislation and court decisions which constitute the body of EU law) will need to take place prior to Montenegro's accession to the EU. The *acquis communautaire* is divided into 35 chapters for the purposes of negotiations between the EU and the candidate member states. In order to meet the EU accession criteria, the chapters are screened by the European Commission, following which negotiations with respect to each chapter are opened and continue until resolved, at which point the chapter is considered to be closed.

The screening of the chapters on Science and Research; Education and Culture; Judiciary and Fundamental Rights; and Justice, Freedom and Security was completed in 2012, while the screening for the remaining chapters was completed in June 2013. As part of this process, the European Commission and Montenegro reviewed Montenegrin laws to determine what differences exist between them and existing EU directives. Screening reports to be prepared by the European Commission for all chapters will provide guidance for further planning of the process of alignment of Montenegrin legislation with EU laws and the integration process as a whole. Based on the results of the screening, the Government adopted its Accession Program of Montenegro to the European Union 2014-2018 (the "**AP**"), which is a strategic document that sets

out the steps to be taken for the EU accession process. In particular, the AP focuses on three key areas: political, economic and implementation of EU legislation (i.e. compliance with the EU's so called "**Copenhagen criteria**").

On 18 December 2012, Montenegro opened and temporarily closed Chapter 25 (*Science and Research*), and on 15 April 2013 Montenegro opened and temporarily closed Chapter 26 (*Education and Culture*). Chapters 5 (*Public Procurement*), 6 (*Company Law*), 20 (*Enterprise and Industrial Policy*), 23 (*Judiciary and Fundamental Rights*) and 24 (*Justice, Freedom and Security*) have been open since 18 December 2013, while Chapters 7 (*Intellectual Property Rights*) and 10 (*Information, Society and Media*) have been open since 31 March 2014. On 24 June 2014, Montenegro opened three additional chapters: 4 (*Free Movement of Capital*), 31 (*Foreign, Security and Defence Policy*) and 32 (*Financial Control*). On 16 December 2014 Montenegro opened an additional four chapters: 18 (*Statistics*), 28 (*Consumer and Health Protection*), 29 (*Customs Union*) and 33 (*Financial and Budgetary Provisions*). Temporary closure means that, if it deems it necessary, the EU may re-open the chapter at a later date. Negotiations with respect to the remaining chapters are expected to be opened following the completion of the screening process.

The timing of Montenegro attaining full membership of the EU will depend on a number of economic and political factors relating to both Montenegro and the EU. However, the European Commission has stated that no new members will join the EU in the next five years, and therefore accession is unlikely until 2020.

The Economy

Comprehensive economic reforms in Montenegro and economic development based on the principles of private ownership, free markets, openness to trade, the free flow of capital and competitive tax policies contributed to growth in the country's GDP of on average approximately 8.7 per cent. per annum in real terms during 2006 to 2008. The declaration of independence in June 2006 also had a positive impact on economic growth. However, following the global financial and economic crisis in 2008 and 2009, Montenegrin GDP contracted by 5.7 per cent. in 2009, grew by 2.5 per cent. and 3.2 per cent. in 2010 and 2011, respectively, contracted by 2.5 per cent. in 2012 and grew by 3.3 per cent. in 2013, in each case in real terms. Preliminary MONSTAT data indicates that the Montenegrin economy recorded a 1.3 per cent. growth in GDP in real terms in the third quarter of 2014 as compared to the third quarter of 2013 and the estimated GDP growth for the year ended 31 December 2014 is 2.0 per cent. Going forward, the principal objectives for Montenegro include EU accession, further restructuring and reforming the public sector and State administration, developing sustainable pension and health systems, reforming the judicial system, enacting labour market reforms and further improving the overall business environment. Many of Montenegro's recent and planned reforms are designed to harmonise with relevant EU standards

Overview of Risk Factors Relating to the Issuer and the Notes

Risks Associated with Emerging Markets

- Investors in securities of sovereign issuers in emerging markets such as Montenegro should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks.

Risk Factors Relating to Montenegro

- Montenegro may not succeed in implementing its proposed economic, financial and other reforms and policies, which may adversely affect

the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes;

- The Montenegrin economy remains vulnerable to external shocks, which could have an adverse effect on Montenegro's economic growth;
- Montenegro depends on its tourism industry as a significant source of revenue and any deterioration in its tourism industry may adversely affect Montenegrin economy and its ability to service its debt;
- If Montenegro's public debt continues to grow to finance budget deficit, Montenegro may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes;
- Montenegro may not be able to refinance its debt on favourable terms or at all;
- Montenegro may not become a member of the EU in the near to medium term or at all;
- Montenegro's credit rating may deteriorate;
- A decrease in the lending activities of Montenegrin banks may have an adverse effect on the overall economy, in particular small and medium-sized enterprises operating in the service sector;
- Further asset quality deterioration could cause Montenegrin banks to be not in compliance with regulatory requirements, including capital adequacy requirements, and/or to reduce their lending activities, which could have an adverse effect on growth prospects for the Montenegrin economy;
- The high level of foreign ownership in the Montenegrin banking system makes it vulnerable to disruption as a result of internal or external factors;
- Official economic data may not be accurate and could be revised;
- As a result of the adoption of the euro as the Montenegrin currency, the Central Bank's ability to regulate monetary policy and provide liquidity to the Montenegrin banking system is limited;
- The CBM is not a member of the European System of Central Banks or the European Central Bank and, as a result, does not benefit from any support programmes provided by these institutions to EU member states or to financial institutions located in EU member states;
- Corruption, money laundering and organised crime issues may hinder the growth of the Montenegrin economy, delay or foreclose EU accession and otherwise have a material adverse effect on Montenegro;
- Montenegro's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system;
- The uncertainties relating to the Montenegrin judicial system, including the inability to enforce foreign judgments, could have an adverse effect on its economy and thus on the ability of Montenegro

to repay principal and make payments of interest on the Notes; and

- A claimant may not be able to enforce a court judgment or arbitral award against certain assets of Montenegro in certain jurisdictions.

Certain Other Risks Related to the Notes

- Collective action clauses;
- The secondary market generally;
- *Pari Passu* treatment;
- EU Savings Directive;
- Exchange rate risks and exchange controls; and
- The Issuer is a sovereign state and accordingly it may be difficult to obtain or enforce judgments against it.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully consider the following risks, and the other information contained in this Prospectus, before they decide to invest in the Notes. The trading price of the Notes could decline due to any of these risks, and potential investors could lose all or part of their investment. The risks described below are not the only risks we face. We have described only the risks that we consider to be material. However, there may be additional risks that we currently consider not to be material or of which we are not presently aware. If any of the following risks were to materialise, our business, financial condition, results of operations and prospects could be materially adversely affected and it could affect the Issuer's ability to meet its obligations under the Notes.

Risks Associated with Emerging Markets

Investments in securities of sovereign issuers in emerging markets such as Montenegro are subject to greater risk than investments in countries with more developed market economies and mature political and legal systems. These greater risks include economic instability caused by a variety of factors such as a narrow export base, reliance on imports, fiscal and current account deficits, reliance on foreign investment, high unemployment and changes in the political, economic, social, legal and regulatory environment. Actions of governments may be challenged by future governments. Although progress has been made in reforming the economy and the political and judicial system, the Montenegrin legislative framework is still not in all material respects in line with the standards adopted, for example, by EU member states or the United States. Investors should also note that emerging economies such as Montenegro's are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly.

The disruptions recently experienced in the international and domestic capital markets, especially in relation to sovereign debt, have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Any entity located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, because international investors' reaction to the events occurring in one market may demonstrate a "contagion" effect in which an entire region or class of investment is disfavoured by international investors, Montenegro could be adversely affected by negative economic or financial developments in European and neighbouring countries. In particular, concerns about credit risk (including that of sovereigns) and the large sovereign debts and/or fiscal deficits of several European countries (such as Portugal, Italy, Ireland, Cyprus, Greece and Spain) have caused significant disruptions in international capital markets in recent years. Geopolitical instability, for example caused by the recent events in Ukraine and Russia, the default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or any European Union ("EU") and/or Euro zone exits, could cause severe stress in the financial system generally and could adversely affect the global financial markets in ways which are difficult to predict.

The Montenegrin economy is associated with, and subject to similar risks as, the economies of the Balkan region. Economic and financial difficulties affecting such countries may negatively affect Montenegro's economy. Foreign investors may also associate the difficulties experienced by these other economies with the Montenegrin economy, which may adversely affect investment in Montenegro. Even though the Government has in recent years focussed, and it intends to continue to focus, on establishing strong connections and increased trade with developed economies in Europe, including EU member states, the effects of the global financial and economic crisis, which began in the second half of 2008, severely impacted the Montenegrin economy and its plans for future growth. See "*The Economy*". Montenegro's economy may be adversely affected by any further financial and/or economic crises that may occur in the future, including, but not limited to, issues arising from or linked to the current economic slowdown in the Euro zone and a prolonged Euro zone depressed economy.

Risk Factors Relating to Montenegro

Montenegro may not succeed in implementing its proposed economic, financial and other reforms and policies, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Since declaring independence in 2006, Montenegro has been pursuing a programme of economic structural reform with the objective of establishing a market-based economy through privatisation of state enterprises and deregulation of the economy. In particular, in 2012 the Government of Montenegro (the "**Government**") introduced a number of structural measures aimed at strengthening the quality of public finances and in 2014 the Government adopted changes to the tax system, which become effective in 2015, which aim to stimulate growth and investment. However, this process is not yet complete. Montenegro may be unable to complete planned privatisations or may experience difficulties implementing reforms. Montenegro has made progress in the transition to a functioning market-based economy, but the rebuilding of Montenegro's economic and institutional infrastructure, including in particular the Bar-Boljare Motorway described further below, to a Western European standard requires further investment and may take years to complete and is expected to increase Montenegro's debt to GDP ratio.

There can be no assurance that the economic and financial initiatives and the reforms described in this Prospectus will continue, will not be reversed or will achieve their intended aims in a timely manner or at all. Failure of the Government to implement its proposed economic, financial and other reforms and policies may negatively affect the Montenegrin economy and, as a result, have a material adverse effect on Montenegro's capacity to repay principal and make payments of interest on the Notes.

The Montenegrin economy remains vulnerable to external shocks, which could have an adverse effect on Montenegro's economic growth and Montenegro's ability to repay principal and make payments of interest on the Notes

The Montenegrin economy remains vulnerable to external shocks, such as the global financial and economic crisis in 2008 and 2009, the European sovereign debt crisis and the resulting economic downturn in Europe and the recent political turmoil in certain emerging markets (for example, caused by the recent events in Ukraine and Russia). Such external events generally caused sharp declines in FDI inflows to, and exports of goods by, Montenegro as well as larger fiscal imbalances and higher rates of growth in overall levels of Government borrowing than Montenegro experienced prior to 2008. Despite the fact that Montenegro's GDP growth averaged 8.7 per cent. per annum in real terms during 2006 – 2008, this growth pattern was reversed in 2009 as a result of the global financial and economic crisis and GDP growth resumed slowly only in 2010. During the crisis, Montenegro experienced a decline in GDP and an increase in total debt. During 2009, GDP fell to €2,981 million, a decrease of approximately 5.7 per cent. in real terms compared to 2008. As at 31 December 2010, total debt had increased to €1,270.7 million compared to €1,140.2 million at the end of 2009, which was an increase of 3.8 per cent. as a percentage of total GDP compared to 2009. Montenegro's GDP grew by 2.5 per cent. and 3.2 per cent. in real terms in 2010 and 2011 respectively, and contracted by 2.5 per cent. in 2012 in real terms, principally as a result of a challenging economic environment in the Euro-zone which had an adverse impact on Montenegro, a sharp decline in the overall economic activity in the first quarter (mainly due to adverse weather conditions, which also resulted in stagnation and weak growth throughout the year), as well as declines in industrial production (largely due to a decrease in production at the Podgorica Aluminium Plant ("**KAP**"), see "*The Economy—Principal Sectors of the Economy—Industrial production—Metals manufacturing—Restructuring of the indebtedness of KAP and the Steel Mill*" for more information) and in budget expenditure and revenues from taxes on goods. In 2013 and 2014, Montenegro's GDP grew by 3.3 per cent. and an estimated 2.0 per cent., respectively.

Despite various measures adopted throughout Europe to address the Euro zone crisis and economic slowdown in Europe, global markets continue to experience high levels of volatility and uncertainty. This is partly due to the lack of agreement between the major European governments on how to use financial measures to support the Euro zone economies that are in difficulty. The impact of these conditions could be detrimental to Montenegro and could have a material adverse effect on the ability of Montenegro to fund payments on its debt obligations, including the Notes. Prospective investors should take into account the considerable uncertainty as to how the Euro zone crisis and the wider economic situation will develop over time.

Any future decrease in GDP or FDI inflows may adversely affect Montenegro's ability to grow its

economy sustainably based on investments in fixed capital and net exports, including long-term infrastructure projects and industrial projects mainly funded by FDI. Additionally, a significant decline in the economic growth of Montenegro's main trading partners, including Russia, Serbia and EU member states, could also have an adverse effect on Montenegro's balance of trade and adversely affect Montenegro's economic growth. For example, Italy is one of Montenegro's most significant foreign partners and the Government has entered into a number of bilateral economic initiatives with Italy. A decline in Italy's economy could have an adverse effect on Montenegro's economic growth. There can be no assurance that the economy of Montenegro will return to the growth levels experienced between 2006 and 2008. These economic factors could have a material adverse effect on Montenegro's ability to repay principal and make payments of interest on the Notes and on Montenegro's credit rating.

Montenegro depends on its tourism industry as a significant source of revenue and any deterioration in its tourism industry may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

In recent years, tourism has been, and is expected by the Government to continue to be, a very important sector of the economy. The Government, in cooperation with the World Travel and Tourism Council, estimates that the direct contribution of travel and tourism to total Montenegrin GDP was 9.8 per cent. (€348.7 million) in 2013, and comprised more than 60 per cent. of the total export of services in 2013. The total (direct and indirect) contribution of travel and tourism to total Montenegrin GDP was 20 per cent. (€714.2 million) in 2013.

Revenue generated by the tourism industry depends on various factors, including consumer spending power, which may be adversely affected by economic downturns, and the public perception of the attractiveness and safety of a potential tourist destination. Moreover, the expected growth in the tourism sector is also dependent on principal tourism projects (such as hotels and resorts) and infrastructure being completed on time and on budget. In addition, the majority of tourists visiting Montenegro are from the EU countries, Serbia and Russia, and consequently an economic slowdown in these regions or any deterioration in diplomatic relations with countries in these regions could adversely affect the Montenegrin tourism industry. Challenges to further development of the tourism sector include a tight budget, unfulfilled contractual obligations such as hotels not being built and insufficient transport links to and within the country. Negative developments arising from these or other factors may adversely affect the tourism industry in Montenegro, which, in turn, may adversely affect the Montenegrin economy and the ability of Montenegro to repay principal and make payments of interest on the Notes.

If Montenegro's public debt continues to grow to finance its budget deficit, Montenegro may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes

In 2012 and 2013, the general Government deficit amounted to €191.4 million (or 6.2 per cent. of GDP) and €176.5 million (or 5.3 per cent. of GDP), respectively. The level of general Government revenue continues to be impacted by the difficult macroeconomic environment. On the expenditure side, despite reduction efforts, Montenegro faces substantial expenses relating to public wages, social benefits (including pensions and healthcare) and interest payments, which in the aggregate represented 30.1 per cent. of Montenegro's GDP in 2012, 28.9 per cent. of GDP in 2013 and 29.6 per cent. of GDP in 2014. The level of compensation to Government employees remains high and amounted to €407.7 million, or 12.9 per cent. of GDP, in 2012, €407.0 million, or 12.2 per cent. of GDP, in 2013 and €423.3 million, or 12.5 per cent. of GDP in 2014. In 2014, the budget included a measure for non-adjusting pensions, which required government pensions to remain at the same levels. However, the 2015 budget has eliminated the non-adjustment of pensions, which could result in higher government expenses. In addition, in the absence of adequate reform, the risk of increases in expenses relating to pensions and healthcare over the long-term is compounded by the fact that the old-age dependency ratio (the proportion of the working age population (people aged 15 to 64) to people aged 65 or older) remains high (42.3:8.3 as at 31 December 2013).

In addition, the Government has undertaken a number of major infrastructure projects that are expected to be carried out over the near to medium term and are expected to create upward pressure on Government expenditure, including the €809 million road development project expected to be constructed during 2015-2018 and relating to a part of the motorway project between Bar and Belgrade (see "*The Economy—Principal Sectors of the Economy—Construction—Bar-Belgrade Motorway*" for additional information). It is expected that as a result of this project and other factors, the annual general Government fiscal

budget deficit will be approximately between 4 and 6 per cent. in the near term. Additionally, the costs of the construction of the Bar-Belgrade Motorway may be higher than expected or delays in construction could result in the incurrence of further costs. Construction on the Bar-Belgrade Motorway, together with the issuance of the Notes, is expected to increase the debt to GDP ratio to over 60 per cent., and Montenegrin law requires certain measures being taken if the debt to GDP ratio increases over 60 per cent. Such measures include setting a five-year plan to reduce the debt to GDP ratio to below 60 per cent., introducing new projects to increase revenues and introducing new taxes to pay off indebtedness. Despite such measures, the Government expects the ratio of debt to GDP to remain over 60 per cent. until the completion of construction of the Bar-Belgrade Motorway. Furthermore, the Government is currently involved in litigation regarding the Steel Mill plant and KAP plant (see "*The Economy—Principal Sectors of the Economy—Industrial production—Metals manufacturing—Steel Mill litigation*" and "*—KAP litigation*" for additional information). If the outcome of such litigation is unsuccessful and the Government is required to make payments under such claims, this would result in an increase in Government expenditure. The Government has also provided guarantees, amounting to almost 10 per cent. of GDP as of 31 December 2014, in respect of a number of Montenegrin companies. Although the Government is attempting to sell a number of state-owned companies, there is no guarantee that such attempts will be successful.

Without sufficient structural reforms aimed at reducing the dependence of state-owned enterprises on public finances and at fostering greater economic efficiency through broader private sector participation, revenue raising measures could prove inadequate to cover the continued increases in public debt and interest payments. As a result, the primary deficit may not improve and debt servicing in turn grow more demanding. Government payment capacity may become further affected by economic cyclical trends and the risk of a delayed recovery of key economic sectors. Actual economic growth in 2015 may be lower than Government projections and assumptions used for the 2015 budget. Lower growth than expected may have an adverse impact on budget revenue and other negative implications, such as increasing the share of expenditure to GDP (with an unchanged level of expenditure), thereby causing the Government to fail to meet its targets to reduce the expenditure-to-GDP ratio. In a lower growth environment, additional expenditure reduction measures may be required. This would add pressure to the existing fiscal consolidation plan.

Taken as a whole, lower revenues, coupled with significant expenses related to public wages, social benefits (including pensions and healthcare), infrastructure projects, litigation regarding the Steel Mill plant and KAP plant and interest payments may adversely affect Montenegro's ability to repay principal and make payments of interest on the Notes.

Montenegro may not be able to refinance its debt on favourable terms or at all

Montenegro has substantial amounts of internal and external public debt. As at 31 December 2013, total general Government debt amounted to €1,933.7 million, or 58.0 per cent. of GDP, of which domestic debt accounted for €500.7 million, or 15 per cent. of GDP, and external debt accounted for €1,433.0 million, or 43.0 per cent. of GDP. As at 31 December 2014, total state Government debt amounted to €1,951.6 million (or 57.5 per cent. of estimated GDP), which represented a 0.9 per cent. increase as compared to 31 December 2013 principally as a result of an increase in borrowings to finance the budget deficit. The first phase of constructing the Bar-Belgrade Motorway is expected to require additional indebtedness, which, along with the issuance of the Notes, will raise Montenegro's debt to GDP ratio over 60 per cent., which would trigger a requirement that the Government take steps to reduce the ratio below 60 per cent. Such measures include setting a five-year plan to reduce the debt to GDP ratio to below 60 per cent., introducing new projects to increase revenues and introducing new taxes to pay off indebtedness. Despite such measures, the Government expects the ratio of debt to GDP to remain over 60 per cent. until the completion of construction of the Bar-Belgrade Motorway. As at 31 December 2014, the Government had reserves of €37.7 million, which represented a decrease of 6.7 per cent. as compared to 31 December 2013. This reduction resulted from the use of Government reserves in the repayment of Government debt and the financing of the general Government budget deficit during the recorded period. Debt repayments (including principal and interest) in the amounts of approximately €470 million and €435 million are due in 2015 and 2016, respectively. See "*Indebtedness*" for additional information. Any deterioration in financing conditions as a result of market, economic or political factors, which may be outside Montenegro's control, may jeopardise Montenegro's ability to repay and/or refinance its existing debt and to repay principal and make payments of interest on the Notes, and thereby adversely affect Montenegro's ability to implement its economic strategy and reforms. In addition, any increases in Montenegro's public debt, as a result of incurring budget deficits or otherwise, would further exacerbate this risk (see "*If*"

Montenegro's public debt continues to grow to finance its budget deficit, Montenegro may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes" above).

Montenegro may not become a member of the EU in the near to medium term or at all, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Montenegro is in the process of applying for full membership of the EU. See "*Montenegro — International Relations — Montenegro's relationship with the international community — European Union*". Montenegro's EU Stabilisation and Association Agreement became effective on 1 May 2010, and on 17 December 2010, the European Council recognised Montenegro's progress by granting it candidate country status. In December 2011, the European Council launched the accession process with a view to opening negotiations in June 2012. The accession negotiations with Montenegro officially commenced on 29 June 2012. On 8 October 2014, the European Commission adopted a progress report (the "**Progress Report**") on Montenegro which was published as part of the 2014 Enlargement Package. This was the third Progress Report on Montenegro since the country opened accession negotiations with the EU in June 2012. The European Commission concluded that the country has made further progress in establishing a functioning market economy, has improved its ability to take on the obligations of EU membership, and continues to sufficiently meet the political criteria for EU membership. However, in the Progress Report, the European Commission also suggested that Montenegro will need to further develop its track record in the areas covered by Chapters 23 and 24, in particular with respect to corruption and organised crime. The screening meetings have been completed and the Government has received reports for all screening chapters. In December 2013 the Government adopted the Accession Program 2014-2018, which is a comprehensive reform package setting out in detail steps that will be taken in order to satisfy the criteria for EU accession. The timing of Montenegro attaining full membership of the EU will depend on a number of economic and political factors relating to both Montenegro and the EU. For example, the European Commission has stated that no new members will join the EU in the next five years, and therefore accession is unlikely until 2020. However, there can be no assurance that Montenegro will become a full member of the EU within any given timescale or at all. In addition, Montenegro is in the process of harmonising its current and future laws with respective EU standards, which may have short-term and/or long-term effects on the Montenegrin economy. As of the date of this Prospectus, of the 35 chapters required to be reviewed and closed as part of the EU accession process, two chapters have been opened and provisionally closed and 16 chapters have been opened. If there are delays or other adverse developments in Montenegro's accession to the EU, or Montenegro does not become a member of the EU, this may adversely impact its future economic development and accordingly may adversely affect Montenegro's ability to repay principal and make payments of interest on the Notes.

Montenegro's credit rating may deteriorate, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

In October 2014, Moody's changed the outlook on Montenegro's government bond rating from stable to negative and affirmed the rating at Ba3, due to high fiscal deficits, higher gross borrowing requirements and increased external imbalances. In November 2014, S&P lowered the rating of Montenegro's long-term debt to B+ (stable outlook) from BB-, citing elevated high external indebtedness and the lack of monetary flexibility due to unilateral adoption of the euro as reasons for the downgrade. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. See "*If Montenegro's public debt continues to grow to finance its budget deficit, Montenegro may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes*" and "*Montenegro may not be able to refinance its debt on favourable terms or at all*" above. Any adverse change in Montenegro's credit rating could adversely affect the trading price of the Notes.

Each of Moody's and S&P is established in the European Union and registered under the CRA Regulation.

A decrease in the lending activities of Montenegrin banks may have an adverse effect on the overall economy, in particular small and medium-sized enterprises operating in the service sector, and may

have an adverse effect on Montenegro's ability to repay principal and make payments of interest on the Notes

The impact of the global financial and economic crisis first became evident in the Montenegrin banking system in October 2008 and led to a significant reduction in bank deposits, constraints on banks' ability to access external sources of funding, reduction of inflow of funds (particularly funds relating to repayment of loans as a result of the deterioration in the financial position of borrowers, which also led to an overall decline in the quality of assets) and almost total discontinuance of banks' lending activities. This resulted in severe liquidity problems for many small businesses operating in the service sector of the Montenegrin economy, which have no alternative means of financing, and contributed to an increase in the overall level of tax arrears, particularly for the service sector.

Between the end of 2008 and the end of 2012, the number of outstanding loans in the Montenegrin banking sector gradually declined as banks restricted their lending activities by adopting more conservative policies in response to the global financial and economic crisis. As at 31 December 2010, total loans were €2,199.9 million, or 8.2 per cent. lower than as at 31 December 2009. As at 31 December 2011, total loans were €1,955.8 million, or 11.1 per cent. lower than at the end of 2010. As at 31 December 2012, total loans were €1,862.5 million, or 4.8 per cent. lower than at the end of 2011. As at 31 December 2013, total loans were €2,441.8 million, or 31.1 per cent. higher than at the end of 2012, however, this increase was mainly due to changes in calculation methodology as a result of regulatory amendments (the application of International Accounting Standards ("IAS") to banks in Montenegro) involving a reclassification of deposit accounts held at other depositary institutions and other claims, interests and accruals, as "Net Loans and other claims" for the purposes of 31 December figures, that came into effect on 1 January 2013, rather than a shift in the Montenegrin banks' lending policies. As at 30 November 2014, total loans amounted to €2,460.2 million, or 0.8 per cent. higher than at the end of 2013.

As a result of new lending policies adopted following the global financial and economic crisis in 2008 and 2009, lending activities by banks and other financial institutions in Montenegro may not return to pre-crisis levels, which could have an adverse effect on growth prospects for the Montenegrin economy, particularly the small and medium-sized enterprises operating in the service sector, and growth in this sector is unlikely to resume until Montenegrin banks increase their lending activities. This may adversely impact Montenegro's future economic development and may adversely affect Montenegro's ability to repay principal and make payments of interest on the Notes.

Further asset quality deterioration could cause Montenegrin banks to be not in compliance with regulatory requirements, including capital adequacy requirements, and/or to reduce their lending activities, which could have an adverse effect on growth prospects for the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Between the end of 2008 and the end of 2010, the Montenegrin banking sector witnessed sharp increases in the volume of non-performing loans ("NPLs") and the ratio of NPLs to total loans, principally reflecting deterioration of asset quality as a result of the effects of the global financial and economic crisis that commenced in the second half of 2008. Although the volume of NPLs and the ratio of NPLs to total loans decreased in 2011, the upward trend resumed in 2012, with the volume of NPLs increasing from €303.8 million as at 31 December 2011 to €327.8 million as at 31 December 2012 and the ratio of NPLs to total loans rising from 15.5 per cent. as at 31 December 2011 to 17.6 per cent. as at 31 December 2012. The volume of NPLs further increased to €448.7 million as at 31 December 2013, principally as a result of the implementation of IAS 39 in early 2013. As of 31 March 2013, partly as a result of the implementation of IAS 39, the NPL ratio rose to 19.4 per cent. and then subsequently decreased to 18.4 per cent. as at 31 December 2013. The effect of this implementation was that loans and other claims classified in category "E" of IAS 39 have been transferred from off-balance sheet records to balance sheets. As at 30 November 2014, the volume of NPLs decreased to €419.6 million and the ratio of NPLs to total loans decreased to 17.1 per cent. Further asset quality deterioration could cause banks not to be in compliance with their regulatory requirements, including capital adequacy requirements, whereas actual or expected asset quality deterioration could also cause banks to reduce their lending activities and/or result in a loss of depositor confidence in the Montenegrin banking sector.

Furthermore, in recent years some of the foreign-owned banks operating in Montenegro have sold and transferred some of their assets (including NPLs) to parent banks or factoring companies, as a result of which such assets are no longer recorded in the Montenegrin banking sector or supervised by

Montenegrin authorities, which may result in the actual levels of NPLs in Montenegro being higher than the reported figures and an inaccurate perception of the asset quality. Since 2009 to the date of this Prospectus, approximately €672 million worth of assets has been sold by banks operating in Montenegro with approximately €600 million of which were sold to factoring companies. These asset sales significantly contributed to the decreases in the volumes of outstanding total loans and NPLs. Approximately half of such asset sales by value took place during 2011, which was the principal reason for the decrease in total loans and NPLs from 31 December 2010 to 31 December 2011 and the decrease in the ratio of NPLs to total loans from 21.0 per cent. as at 31 December 2010 to 15.5 per cent. as at 31 December 2011. During 2012 and 2013, such banks conducted further asset sales in the amounts of approximately €50 million and €70 million, respectively. During 2014, such banks conducted asset sales in the total amount of €2.1 million. Any of the foregoing may have an adverse effect on growth prospects for the Montenegrin economy, which, in turn, may adversely affect Montenegro's ability to repay principal and make payments of interest on the Notes.

The high level of foreign ownership in the Montenegrin banking system makes it vulnerable to disruption as a result of internal or external factors, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

As at 31 December 2012, foreign banks accounted for approximately 90.0 per cent. of total assets (decreasing to 89.3 per cent. as at 31 December 2013), 90.1 per cent. of total loans (increasing to 90.2 per cent. as at 31 December 2013) and 89.4 per cent. of total deposits (decreasing to 88.7 per cent. as at 31 December 2013) in the Montenegrin banking system. As at 30 November 2014, foreign banks accounted for approximately 87.7 per cent. of total assets, 88.7 per cent. of total loans and 87.6 per cent. of total deposits in the Montenegrin banking system. Foreign banks may rebalance their global loan portfolios in a manner adversely affecting Montenegro as a result of events related or unrelated to Montenegro, including as a result of the ongoing economic turbulence in the Euro zone and sovereign debt markets. In addition, foreign banks may decrease funding to their subsidiaries operating in Montenegro due to actual or perceived deterioration in asset quality, particularly an increase in NPLs, or in the event of a weaker than expected economic performance. As a result of these or other factors, or other potential shocks, foreign banks may revise their business strategies in, or relating to, Montenegro and in particular their decision to continue to provide existing levels of funding to their subsidiaries in Montenegro. Resulting balance sheet mismatches may adversely affect the Montenegrin economy and, as a result, have an adverse effect on Montenegro's capacity to repay principal and make payments of interest on the Notes.

Official economic data may not be accurate and could be revised

A range of ministries and institutions, including MONSTAT, produce statistics relating to Montenegro and its economy. However, these statistics may be more limited in scope, less accurate, reliable and/or consistent in terms of basis of compilation between various ministries and institutions, and published less frequently than is the case for the comparable statistics for other countries (particularly existing members of the EU). Consequently, prospective investors in the Notes should be aware that figures relating to Montenegro's GDP and many other figures cited in this Prospectus may be subject to some degree of uncertainty and may not be prepared in accordance with international standards. Furthermore, the foregoing limitations of statistical information make adequate monitoring of key fiscal and economic indicators more difficult than for other countries.

Furthermore, standards of accuracy of statistical data may vary from ministry to ministry or from period to period due to the application of different methodologies. In this Prospectus, data are presented as provided by the relevant ministry to which the data is attributed, and no attempt has been made to reconcile such data to the data compiled by other ministries or by other organisations, such as the International Monetary Fund or World Bank. In addition, statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from public sources and documents. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. The existence of a substantial unofficial or unobserved economy in Montenegro may also affect the accuracy and reliability of statistical information.

During 2008-2014, the emergence of significant positive net errors and omissions, which increased to 7.5 per cent. of GDP in 2013 and to 9.2 per cent. of estimated GDP for the first three quarters of 2014, implies that there may be significant unrecorded transactions in the economy. The origin of these transactions is currently being investigated by MONSTAT but based on its assessment of the situation,

the Government estimates that it may be accounted for by a number of different factors, including the actual level of exports being higher than recorded, tourist payments being made in cash, various unrecorded remittances and high levels of FDIs (which tends to lead to higher overall errors).

The statistical information presented herein is based on the latest official information currently available from the stated source. The development of statistical information relating to Montenegro is, however, an ongoing process, and revised figures and estimates are produced on a continuous basis. For instance, GDP figures for 2014 are provisional. Prospective investors should be aware that none of the statistical information in this Prospectus has been independently verified.

As a result of the adoption of the euro as the Montenegrin currency, the Central Bank's ability to regulate monetary policy and provide liquidity to the Montenegrin banking system is limited, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Montenegro adopted the euro as legal tender in 2002. The absence of a national currency imposes certain constraints on Montenegro's ability to regulate monetary and fiscal policies (including in response to external shocks) that are not present in countries that have national currencies, including the ability to set interest rates and provide liquidity to the banking system. For instance, the use of the euro as legal tender made it impossible for the Government to use most quantitative instruments of monetary policy during the global financial and economic crisis in 2008 and 2009, as the country was unable to set monetary policy and provide liquidity to the banking system by adjusting interest rates and money supply, leaving the mandatory reserve rate as the only means to regulate, to a certain extent, the money supply. In addition, as a result of the adoption of the euro as the Montenegrin currency, the country's economy is and will continue to be directly affected by the monetary policy of the European Central Bank ("ECB"), including its interest rate policy. The foregoing limitations on the Government's ability to regulate its monetary and fiscal policies in response to external events or otherwise may have a material adverse effect on Montenegro's capacity to repay principal and make payments of interest on the Notes.

The CBM is not a member of the European System of Central Banks or the European Central Bank and, as a result, does not benefit from any support programmes provided by these institutions to EU member states or to financial institutions located in EU member states, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Despite the fact that Montenegro's official currency is the euro, Montenegro is not a member of the EU or the Eurosystem. Unlike central banks of most other countries whose official currency is the euro, the CBM is not a member of the European System of Central Banks or the ECB. As a result, the CBM has no involvement in ECB policy, and neither Montenegro nor the CBM will benefit from any support programmes provided by these institutions to EU member states or financial institutions located in EU member states. This could adversely affect the Montenegrin economy relative to economies of other Euro-zone countries which receive such support, particularly in circumstances where such support is provided due to adverse global macroeconomic events or deteriorating global economic environment, and, as a result, have an adverse effect on Montenegro's capacity to repay principal and make payments of interest on the Notes.

Corruption, money laundering and organised crime issues may hinder the growth of the Montenegrin economy, delay or foreclose EU accession and otherwise have a material adverse effect on Montenegro and its ability to repay principal and make payments of interest on the Notes

Independent analysts have identified corruption, money laundering and organised crime as problems in Montenegro. In the 2013 Transparency International Corruption Perceptions Index, Montenegro ranked 67th out of 177 countries and territories under review (indicating that there were 66 countries with lower perceived levels of corruption), while in the 2014 Transparency International Corruption Perceptions Index, Montenegro ranked 76th out of 175 countries and territories under review. Any allegations or evidence of corruption, money laundering or organised crime involving the Government and/or members thereof, irrespective of whether such allegations prove to be true, may create tensions between political parties, including parties within the governing coalition, otherwise destabilise the governing coalition and/or lead to early elections. In addition, corruption, money laundering or organised crime in Montenegro may have a negative impact on Montenegro's economy and its reputation abroad, especially on its ability to attract foreign investment, and could slow down or halt progress towards EU membership.

In particular, chapters 23 (Judiciary and Fundamental Rights) and 24 (Justice, Freedom and Security) are crucial chapters to EU accession, and corruption, money laundering and organised crime could impede negotiation of those chapters. A combination of all or some of these factors may lead to negative effects on economic and social conditions in Montenegro which may, in turn, lead to a further deterioration in public finances and a material adverse effect on the ability of Montenegro to fund payments on its debt obligations, including the Notes.

Montenegro's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system, which may adversely affect the Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes

Montenegro has taken, and continues to take, steps aimed at developing a more mature legal system which is comparable to the legal systems of other EU countries. New laws have been introduced and revisions have been made with respect to, amongst others, company, property, securities, labour and taxation laws in order to harmonise them with EU laws. However, Montenegro's legal system remains in transition and is therefore subject to greater risks and uncertainties than a more mature legal system. In particular, risks associated with the Montenegrin legal system include: (i) potential inconsistencies between and among the Constitution and various laws, governmental, ministerial and local orders, decisions, resolutions and other acts; (ii) provisions in the laws and regulations that are ambiguously worded or lack specificity and thereby raise difficulties when implemented or interpreted; (iii) difficulty in predicting the outcome of judicial application of Montenegrin legislation; and (iv) the fact that not all Montenegrin resolutions, orders and decrees and other similar acts are readily available to, or easily accessible by, the public or available in an understandable, organised form. Furthermore, new laws and revisions remain untested in courts and do not have a long history of interpretation. In some circumstances, therefore, it may not be possible to obtain swift enforcement of a judgment in Montenegro or predict the outcome of legal proceedings subject to these new laws. These and other factors that may impact Montenegro's legal system make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature legal system.

The uncertainties relating to the Montenegrin judicial system could have an adverse effect on its economy and thus on the ability of Montenegro to repay principal and make payments of interest on the Notes

The independence of the judicial system and its immunity from economic and political interference in Montenegro remain in doubt. The application and interpretation of the Constitution remain complicated and, accordingly, it is difficult to ensure smooth and effective resolution of discrepancies between the Constitution and applicable Montenegrin legislation on the one hand and among various laws of Montenegro on the other hand.

The court system is underfunded as compared to more mature jurisdictions. As Montenegro is a civil law jurisdiction, judicial decisions under Montenegrin law generally have no precedential effect and the courts are generally not bound by earlier court decisions taken under the same or similar circumstances. This may result in an inconsistent application of Montenegrin legislation to resolve the same or similar disputes. Because legislation in a number of areas was adopted following independence and is still fairly recent, relevant judicial decisions may not be publicly available and, therefore, the role of judicial decisions as guidelines in interpreting applicable Montenegrin legislation to the public at large may be generally limited.

As a result of the foregoing, judicial decisions in Montenegro remain difficult to predict. In addition, court orders are not always enforced or followed by law enforcement institutions. The uncertainties of the Montenegrin judicial system could have an adverse effect on the economy and thus on the ability of Montenegro to repay principal and make payments of interest on the Notes.

A claimant may not be able to enforce a court judgment or arbitral award against certain assets of Montenegro in certain jurisdictions

It may not be possible to effect service of process against Montenegro in courts outside Montenegro or in a jurisdiction to which Montenegro has not explicitly submitted. In addition, the choice of jurisdiction of a foreign court (including English courts) in contractual agreements may be held to be invalid by a Montenegrin court in certain circumstances. It may not be possible to enforce foreign court judgments in the courts of Montenegro, including English court judgments, against Montenegro that are predicated

upon the laws of foreign jurisdictions without a re-examination of the merits of such judgments in the Montenegrin courts, although a re-examination of the merits of a judgment will generally not be conducted according to the applicable law.

Montenegro is a sovereign state and there is a risk that, notwithstanding the limited waiver of sovereign immunity by Montenegro pursuant to the Conditions of the Notes, a claimant will not be able to enforce a court judgment against certain assets of Montenegro (including the imposition of any arrest order or attachment or seizure of such assets and their subsequent sale) in certain jurisdictions (including Montenegro) without Montenegro having specifically consented to such enforcement at the time when the enforcement is sought. See "*Terms and Conditions of the Notes—Governing Law and Jurisdiction*". In addition, certain state-owned assets are statutorily exempt from court enforcement procedures within Montenegro. Specifically, Montenegro has not waived any immunity in respect of present or future: (i) "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961; (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963; or (iii) military property or military assets or property or assets of Montenegro relating to any of the assets referred to in (i) and (ii).

Certain Other Risks Related to the Notes

Collective Action

The Conditions contain provisions regarding amendments, modifications and waivers, commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the Conditions. If this occurs, then this could mean that the Notes would be capable of aggregation with any such future debt securities. This means that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of debt securities in all the relevant aggregated series, including the Notes.

Any modification or actions relating to Reserved Matters (as defined in the Conditions), including in respect of payments and other important terms, may be made to the Notes with the consent of the holders of 75 per cent. of the aggregate principal amount outstanding of the Notes, and to multiple series of debt securities which may be issued by the Issuer with the consent of both (i) the holders of $66\frac{2}{3}$ per cent. of the aggregate principal amount outstanding of all debt securities being aggregated and (ii) the holders of 50 per cent. in aggregate principal amount outstanding of each series of debt securities being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to Reserved Matters may be made to multiple debt securities with the consent of only 75 per cent. of the aggregate principal amount outstanding of all debt securities being aggregated, without requiring a particular percentage of the holders in any individual affected debt securities to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some debt securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk, therefore, that the Conditions of the Notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of an amendment, modification or waiver may be holders of different debt securities and as such, less than 75 per cent. of the Noteholders would have voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

Rateable Payments

The Notes will at all times rank at least *pari passu* with all other unsecured obligations of the Issuer. However, the Issuer will have no obligation to effect equal or rateable payment(s) at any time with

respect to any other unsubordinated and unsecured obligations of the Issuer and, in particular, will have no obligation to pay other unsubordinated and unsecured obligations of the Issuer at the same time or as a condition of paying sums due on the Notes and *vice versa*. Accordingly, the Issuer may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsecured and unsubordinated creditors of the Issuer as payments fall due.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment is made or collected through a Member State that has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Agent (as defined in "*Terms and Conditions of the Notes*" below) nor any other person is obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Under the Terms and Conditions of the Notes, the Issuer is required to maintain an Agent in a Member State that would not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

The secondary market generally

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euros. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euros would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Issuer is a sovereign state and accordingly it may be difficult to obtain or enforce judgments against it

The Issuer is a foreign sovereign state. Consequently, it may be difficult for investors to obtain or realise upon judgments of courts in England or the United States or any other courts against the Issuer. The Issuer has irrevocably submitted to the jurisdiction of the courts of England and waived any immunity from the jurisdiction (including sovereign immunity) of such courts in connection with any action arising out of or based upon the Notes brought by any holder of Notes. See "*Terms and Conditions of the Notes — Governing Law; Jurisdiction and Arbitration*".

EXCHANGE RATE HISTORY

Montenegro adopted the euro as legal tender in 2002.

For ease of presentation, certain economic and financial information included herein has been translated into U.S. Dollars.

The following table sets out, for the periods outlined below, the low, high, average and period end Bloomberg Composite Rate expressed as U.S. dollars per €1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

	U.S.\$ to Euro			
	Low	High	Average	Period End
2015 (through 5 March 2015)	1.0410	1.2099	1.1465	1.1041
2014.....	1.2100	1.3925	1.3285	1.2100
2013.....	1.2780	1.3802	1.3285	1.3743
2012.....	1.2603	1.3124	1.2864	1.3192
2011.....	1.3352	1.4298	1.3923	1.2959
2010.....	1.2891	1.3667	1.3272	1.3387
2009.....	1.3581	1.4328	1.3949	1.4326

The Bloomberg Composite Rate of the euro on 3 March 2015 was U.S.\$1.1041 per €1.00.

The rates in the above table may differ from the actual rates used in the preparation of the information appearing in this Prospectus. The inclusion of these exchange rates is not meant to suggest that any amount of the currencies specified above has been, or could be, converted into the applicable currency at the rates indicated or at any other rate.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the text in italics, will be endorsed on each Definitive Note Certificate (if issued):

The EUR 500,000,000 3.875 per cent. Notes due 2020 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 18 (*Further Issues*) and forming a single series therewith) of the State of Montenegro (represented by the Government of Montenegro, acting by and through its Ministry of Finance) (the "**Issuer**") are the subject of a fiscal agency agreement dated 18 March 2015 (as amended or supplemented from time to time, the "**Fiscal Agency Agreement**") between the Issuer, Citibank N.A., London Branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the other paying and transfer agents named therein (together with the Fiscal Agent, the "**Agents**", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes) and Citigroup Global Markets Deutschland AG in its capacity as registrar (the "**Registrar**", which expression shall be deemed to include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Fiscal Agency Agreement and are subject to its detailed provisions. The Noteholders are bound by, and are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them. Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Fiscal Agency Agreement) of the Agents. References to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs of these terms and conditions.

1. **Form, Denomination and Title**

(a) ***Form and denomination***

The Notes are in registered form, serially numbered.

The Notes will be issued in minimum denominations of EUR100,000 or any amount in excess thereof which is an integral multiple of EUR1,000 (each an "**Authorised Holding**").

(b) ***Title***

Title to the Notes will pass by transfer and registration as described in Conditions 2 (*Registration*) and 3 (*Transfer of Notes*). The holder (as defined below) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any person (as defined below) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no person will be liable for so treating the holder.

In these Conditions, "**Noteholder**" or "**holder**" means the person in whose name a Note is for the time being registered in the Register (as defined below) (or, in the case of joint holders, the first named thereof) and "**holders**" shall be construed accordingly. A Definitive Note Certificate (as defined below) will be issued to each Noteholder in respect of its registered holding.

*Notes sold to QIBs in the United States in reliance on Rule 144A under the Securities Act will be represented by a Rule 144A Global Note. Notes sold to investors outside the United States in reliance on Regulation S under the Securities Act will be represented by the Regulation S Global Note. Interests in the Regulation S Global Note and the Rule 144A Global Note will be exchangeable for notes in definitive form ("**Definitive Note Certificates**") in the limited circumstances specified in the Regulation S Global Note and the Rule 144A Global Note, respectively. The Global Notes will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank*

SA/NV ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg").

Ownership of beneficial interests in the Global Notes will be limited to persons that have accounts with Euroclear or Clearstream, Luxembourg or Persons that may hold interests through such participants. Beneficial interests in the Global Notes will be shown on, and transfers thereof will be effected through, records maintained in book entry form by Euroclear, Clearstream, Luxembourg and their participants, as applicable.

(c) ***Third party rights***

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. **Registration**

The Issuer will cause a register (the "**Register**") to be kept at the Specified Office of the Registrar in which will be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and all transfers and redemptions of the Notes.

3. **Transfer of Notes**

(a) ***Transfer***

Each Note may, subject to the terms of the Fiscal Agency Agreement and to Conditions 3(b) (*Formalities Free of Charge*), 3(c) (*Closed Periods*) and 3(e) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Paying and Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five Business Days (as defined below) of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) ***Formalities Free of Charge***

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(c) ***Closed Periods***

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) ***Business Day***

In this Condition, "**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the city in which the Specified Office of the Registrar or, as the case may be, the Fiscal Agent is located.

(e) ***Regulations Concerning Transfer and Registration***

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes in Schedule 1 to the Fiscal Agency Agreement. The regulations may be changed by the Issuer with the approval of the Registrar.

(f) ***Authorised Holdings***

No Note may be transferred unless each of the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred is an Authorised Holding.

4. **Status**

The Notes constitute direct, general, unconditional and (subject to Condition 5 (*Negative Pledge*)) unsecured obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal and interest on the Notes and for the performance of all obligations of the Issuer in respect of the Notes. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer. This Condition 4 (*Status*) does not require the Issuer to effect equal or rateable payment(s) at any time with respect to any such other unsecured obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured obligations at the same time or as a condition of paying sums due under the Notes and *vice versa*.

5. **Negative Pledge**

So long as any Note remains outstanding (as defined in the Fiscal Agency Agreement) the Issuer shall not create or permit to subsist any Security Interest other than a Permitted Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any of its Public Indebtedness or any Guarantee of any Public Indebtedness of any other person unless the Issuer shall, in the case of the creation of any Security Interest, at the same time or prior thereto, and in any other case, promptly, procure that all amounts payable in respect of the Notes are secured equally and rateably therewith or providing such other security or other arrangement for the Notes as may be approved by a resolution of the requisite majority of Noteholders or written resolution of Noteholders, in each case in accordance with Condition 14 (*Meetings of Noteholders; Written Resolutions*).

6. **Definitions**

(a) For the purposes of these Conditions:

"**Guarantee**" means in relation to any indebtedness, any guarantee or indemnity given by the Issuer in respect of such indebtedness;

"**Permitted Security Interest**," means any Security Interest created as contemplated by the terms of the facility agreement dated 30 July 2009 between the Issuer, Credit Suisse International and Credit Suisse, London Branch (as amended and restated on 14 November 2010 and 11 April 2011) and the conversion letter dated 30 July 2009 between the Issuer and Credit Suisse, London Branch and, the renewal or extension of any such Security Interest **provided that** (x) the principal amount of the Public Indebtedness secured thereby is not increased, (y) such renewal or extension shall be no more restrictive than the original Security Interest, and (z) the Security Interest has not been or is not extended to any additional assets;

"Public Indebtedness" means any indebtedness which (a) is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument, (b) is, or was intended by the issuer thereof to be at the time such indebtedness was issued, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any automated trading system or over-the-counter market) and (c) has a maturity date falling more than one year after its issue date; and

"Security Interest" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything having an equivalent effect to any of the foregoing under the laws of any jurisdiction.

- (b) Capitalised terms used in Condition 20 (*Governing Law; Jurisdiction and Arbitration*) but not otherwise defined in these Conditions shall have the meanings given to them in the Rules.

7. **Interest**

- (a) ***Interest Accrual***

Each Note bears interest from 18 March 2015 (the **"Issue Date"**) at the rate of 3.875 per cent. per annum (the **"Rate of Interest"**) payable annually in arrear on 18 March of each year commencing on 18 March 2016 (each, an **"Interest Payment Date"**), subject as provided in Condition 8 (*Payments*). Each period beginning on (and including) the Issue Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an **"Interest Period"**.

- (b) ***Cessation of Interest***

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 17 (Notices).

- (c) ***Calculation of Interest for an Interest Period***

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

- (d) ***Calculation of Interest for any other period***

Where interest is to be calculated in respect of a period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed. The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest for an Interest Period*) and 7(d) (*Calculation of Interest for any other period*) by the Fiscal Agent shall, in the absence of manifest and proven error, be binding on all parties.

8. **Payments**

- (a) ***Principal***

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of

business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or of the Paying and Transfer Agents.

(b) ***Interest***

Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

(c) ***Record Date***

"Record Date" means the fifteenth day before the due date for the relevant payment.

(d) ***Payments***

Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and (b) (*Interest*) will be made by euro cheque mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a euro account maintained by the payee with a bank in a city where banks have access to the TARGET System.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a euro account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest, on the due date for payment.

(e) ***Agents***

The names of the initial Agents and the Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Fiscal Agency Agreement by giving to the relevant Agent concerned at least 60 days prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to vary or terminate the appointment of any Agent or Registrar and to appoint successor or additional Agents or Registrar, **provided that** it will at all times maintain:

- (i) a Fiscal Agent;
- (ii) an Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (iii) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Agent or Registrar will be given to Noteholders in accordance with the provisions of the Fiscal Agency Agreement and Condition 17 (*Notices*) as soon as practicable.

(f) ***Payments subject to Fiscal Laws***

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) ***Delay in Payment***

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day, (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail, or (iii) if the holder is late in surrendering (where so required) the relevant Definitive Note Certificate.

(h) ***Business Days***

In this Condition 8 (*Payments*), "**business day**" means any day on which the TARGET System is open and, in the case of surrender of a Definitive Note Certificate, any day on which the commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place of the Specified Office of the Registrar or relevant Agent, to whom the relevant Definitive Note Certificate is surrendered.

9. **Redemption and Purchase**

(a) ***Scheduled redemption***

Unless previously purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 18 March 2020, subject as provided in Condition 8 (*Payments*).

(b) ***No other redemption***

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 9(a) (*Scheduled redemption*).

(c) ***Purchase***

The Issuer may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (**provided that** such resale is outside the United States or, in the case of any Notes resold pursuant to Rule 144A, is only made to QIBs and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(d) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of meetings of the Noteholders or for the purposes of any Written Resolution (as defined in Condition 14), as more particularly set out in Condition 14(i) (*Notes controlled by the Issuer*).

(d) ***Cancellation of Notes***

All Notes which are submitted for cancellation pursuant to Condition 9(c) (*Purchase*) will be cancelled and may not be reissued or resold.

10. **Taxation**

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Montenegro or any political subdivision thereof or any authority therein having power to tax, unless such

withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(a) ***Other Connection***

held by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Montenegro other than the mere holding of the Note;

(b) ***Presentation more than 30 days after the Relevant Date***

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;

(c) ***Payment to Individuals***

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) ***Payment by another Agent***

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Agent in a Member State of the European Union.

In these Conditions, "**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition.

11. **Prescription**

Claims in respect of principal and interest will become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. **Events of Default**

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) ***Non payment***

The Issuer fails to pay any amount in respect of the Notes when the same becomes due and payable and such failure continues for a period of 15 days; or

(b) ***Breach of other obligations***

The Issuer defaults in the performance or observance of any of its other obligations under the Notes and such default is incapable of remedy or, if capable of remedy,

remains unremedied for 30 days after notice of such default has been given to the Issuer (with a copy to the Fiscal Agent at its Specified Office) by any holder of Notes; or

(c) ***Cross-Default***

(i) The acceleration of the maturity (other than by optional or mandatory prepayment or redemption) of any Public Indebtedness of the Issuer, (ii) the Issuer defaults in the payment of any principal of or interest on any of its Public Indebtedness when and as the same shall become due and payable, and such default continues for more than the grace period, if any, originally applicable thereto or, in the case of interest where such grace period does not exceed 30 days, for more than 30 days or (iii) the Issuer defaults in the payment when due and called upon of any guarantee or indemnity of the Issuer in respect of any Public Indebtedness of any other person and such default continues for more than the grace period, if any, originally applicable thereto or, if such grace period does not exceed 30 days, for more than 30 days; **provided that** the aggregate amount of the relevant Public Indebtedness in respect of which one or more of the events mentioned in this sub-paragraph (c) have occurred (which, for the avoidance of doubt, shall exclude any Public Indebtedness of the Socialist Federal Republic of Yugoslavia, the Federal Republic of Yugoslavia and/or the State Union of Serbia and Montenegro which is allocated to the Issuer) equals or exceeds euro 20,000,000 or its equivalent; or

(d) ***Unenforceability***

For any reason whatsoever, the obligations under the Notes are declared by a court of competent jurisdiction pursuant to a final non-appealable decision to be no longer binding or no longer enforceable against the Issuer; or

(e) ***Moratorium***

Montenegro shall have declared a general moratorium on the payment of principal of, or interest on, all or any part of its Public Indebtedness; or

(f) ***Validity***

Montenegro or any of its political sub-divisions (on its behalf) repudiates the validity of the Notes; or

(g) ***IMF***

Montenegro ceases to be a member, or becomes ineligible to use the resources of, the International Monetary Fund,

then the holders of not less than 25 per cent. in the aggregate principal amount of the Notes may, by written notice to the Issuer (with a copy to the Fiscal Agent at its Specified Office), declare the Notes due and payable immediately. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer. Upon any declaration of acceleration, the principal, interest and all additional amounts payable on the Notes will become immediately due and payable on the date the Issuer receives written notice of the declaration. No delay or omission of any Noteholder shall impair any such right or remedy or constitute a waiver of any such Event of Default.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent at its Specified Office), whereupon the relevant declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

For the avoidance of doubt, no event of default shall occur if any event under paragraphs (a) to (g) above (inclusive) occurs in respect of any Public Indebtedness of the Socialist Federal

Republic of Yugoslavia, the Federal Republic of Yugoslavia and/or the State Union of Serbia and Montenegro which is allocated to the Issuer.

13. **Replacement of Notes**

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (**provided that** the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. **Meetings of Noteholders; Written Resolutions**

(a) **Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions:**

- (i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Fiscal Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
- (ii) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in principal amount of the outstanding Notes (as defined in the Fiscal Agency Agreement and described in Condition 14(i) (*Notes controlled by the Issuer*)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Fiscal Agency Agreement. If the Fiscal Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.
- (iv) The notice convening any meeting will specify, *inter alia*:
 - (A) the date, time and location of the meeting;
 - (B) the agenda and the text of any Extraordinary Resolution (as defined below) to be proposed for adoption at the meeting;
 - (C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
 - (D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
 - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;

- (F) whether Condition 14(b) (Modification of this Series of Notes only), Condition 14(c) (Multiple Series Aggregation – Single limb voting), or Condition 14(d) (Multiple Series Aggregation – Two limb voting) shall apply and, if relevant, in relation to which other series of debt securities it applies;
 - (G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
 - (H) such information that is required to be provided by the Issuer in accordance with Condition 14(f) (*Information*);
 - (I) the identity of the Aggregation Agent (as defined below) and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 14(g) (*Claims Valuation*); and
 - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (v) In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 14(a)(iv) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
 - (vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution as set out below.
 - (vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
 - (viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
 - (ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.
 - (x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 14 (*Meetings of Noteholders; Written Resolutions*) and Condition 15 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.
- (b) **Modification of this Series of Notes only**
 - (i) Any modification of any provision of, or any action in respect of, these Conditions or the Fiscal Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

- (ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*) by a majority of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
 - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.
- (iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or
 - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.
- (iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.
- (c) **Multiple Series Aggregation – Single limb voting**
 - (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, **provided that** the Uniformly Applicable condition is satisfied.
 - (ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
 - (iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
 - (iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether

or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

- (v) The "**Uniformly Applicable**" condition will be satisfied if:
 - (A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (1) the same new instrument or other consideration or (2) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
 - (B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to the currency of issuance).
- (vi) Any modification or action proposed under Condition 14(c) (*Multiple Series Aggregation – Single Limb Voting*) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 14(c) (*Multiple Series Aggregation – Single Limb Voting*) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.
- (d) ***Multiple Series Aggregation – Two limb voting***
 - (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
 - (ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 14(a) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:
 - (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
 - (iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
 - (A) at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

- (iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.
- (v) Any modification or action proposed under Condition 14(d) (*Multiple Series Aggregation – Two Limb Voting*) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 14(d) (*Multiple Series Aggregation – Two Limb Voting*) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) ***Reserved Matters***

In these Conditions, "**Reserved Matter**" means any proposal:

- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";
- (v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";
- (vi) to change the definition of "Uniformly Applicable";
- (vii) to change the definition of "outstanding" or to modify the provisions of Condition 14(i) (*Notes controlled by the Issuer*);
- (viii) to (A) change the legal ranking of the Notes or (B) to approve such other arrangement by way of Extraordinary Resolution of the Noteholders or by a Written Resolution as is referred to in the first paragraph of Condition 5 (*Negative Pledge*);
- (ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 12 (*Events of Default*);
- (x) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable

proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 20 (*Governing Law; Jurisdiction and Arbitration*);

- (xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (xii) to modify the provisions of this Condition 14(e) (*Reserved Matters*);
- (xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or
- (xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
 - (A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
 - (B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

(f) **Information**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 14(b) (*Modification of this Series of Notes only*), Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 14(d) (*Multiple Series Aggregation – Two limb voting*), the Issuer shall publish in accordance with Condition 15 (*Aggregation Agent; Aggregation Procedures*), and provide the Fiscal Agent with the following information:

- (A) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (B) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (C) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 14(a)(iv)(G) (*Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions*).

(g) ***Claims Valuation***

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) and Condition 14(d) (*Multiple Series Aggregation – Two limb voting*), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) ***Manifest error, etc.***

The Notes, these Conditions and the provisions of the Fiscal Agency Agreement may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(i) ***Notes controlled by the Issuer***

For the purposes of (a) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (b) this Condition 14 (*Meetings of Noteholders; Written Resolutions*) and (c) Condition 12 (*Events of Default*), any Notes which are for the time being held by the Issuer, by a department, ministry or agency of the Issuer, or by a corporation, trust or other legal entity that is controlled by the Issuer or a department, ministry or agency of the Issuer (and, in the case of a Note held by any such above-mentioned corporation, trust or other legal entity, the holder of the Note does not have autonomy of decision), shall be disregarded and be deemed not to remain outstanding where:

- (A) the holder of a Note for these purposes is the entity legally entitled to vote the Note for or against a proposed modification or, if different, the entity whose consent or instruction is by contract required, directly or indirectly, for the legally entitled holder to vote the Note for or against a proposed modification;
- (B) a corporation, trust or other legal entity is controlled by the Issuer or by a department, ministry or agency of the Issuer if the Issuer or any department, ministry or agency of the Issuer has the power, directly or indirectly, through the ownership of voting securities or other ownership interests, by contract or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of that legal entity; and
- (C) the holder of a Note has autonomy of decision if, under applicable law, rules or regulations and independent of any direct or indirect obligation the holder may have in relation to the Issuer: (x) the holder may not, directly or indirectly, take instruction from the Issuer on how to vote on a proposed modification; or (y) the holder, in determining how to vote on a proposed modification, is required to act in accordance with an objective prudential standard, in the interest of all of its stakeholders or in the holder's own interest; or (z) the holder owes a fiduciary or similar duty to vote on a proposed modification in the interest of one or more persons other than a person whose holdings of Notes (if that person then held any Notes) would be deemed to be not outstanding under this Condition 14(i) (*Notes controlled by the Issuer*).

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 15(d) (*Certificate*) which includes information on the total number of Notes which are for the time being held by the Issuer, by a department, ministry or agency of the Issuer, or by a corporation, trust or other legal entity that is controlled by the Issuer or a department, ministry or agency of the Issuer and over which such above-mentioned corporation, trust or other legal entity does not have autonomy of decision (as set out above) and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) ***Publication***

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 15(g) (*Manner of Publication*).

(k) ***Exchange and Conversion***

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

15. **Aggregation Agent; Aggregation Procedures**

(a) ***Appointment***

The Issuer will appoint an Aggregation Agent (the "**Aggregation Agent**") to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Fiscal Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) ***Extraordinary Resolutions***

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the

Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) ***Written Resolutions***

If a Written Resolution has been proposed under these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) ***Certificate***

For the purposes of Condition 15(b) (*Extraordinary Resolutions*) and Condition 15(c) (*Written Resolutions*), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 14(b) (*Modification of this Series of Notes only*), Condition 14(c) (*Multiple Series Aggregation – Single limb voting*) or Condition 14(d) (*Multiple Series Aggregation – Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the record date; and
- (ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 14(i) (*Notes controlled by the Issuer*) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) ***Notification***

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 15 (*Aggregation Agent; Aggregation Procedures*) to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) ***Binding nature of determinations; no liability***

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 15 (*Aggregation Agent; Aggregation Procedures*) by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) ***Manner of publication***

The Issuer will publish all notices and other matters required to be published pursuant to the Fiscal Agency Agreement including any matters required to be published pursuant to Condition 12 (*Events of Default*), Condition 14 (*Meetings of Noteholders; Written Resolutions*), this Condition 15 (*Aggregation Agent; Aggregation Procedures*) and Condition 16 (*Noteholders' Committee*):

- (i) through Euroclear Bank S.A./N.V., Clearstream Banking, *société anonyme*, and/or any other clearing system in which the Notes are held;
- (ii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iii) in such other places and in such other manner as may be customary.

16. **Noteholders' Committee**

(a) ***Appointment:***

- (i) Holders of at least 25 per cent. of the aggregate principal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:

- (a) an Event of Default under Condition 12 (*Events of Default*);
- (b) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 12 (*Events of Default*) become an Event of Default;
- (c) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or
- (d) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.

- (ii) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 16(a)(i) (*Appointment*) and a certificate delivered pursuant to Condition 16(d) (*Certification*), the Issuer shall give notice of the appointment of such a committee to:

- (a) all Noteholders in accordance with Condition 17 (*Notices*); and
- (b) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

(b) ***Powers:***

Such committee in its discretion may, among other things:

- (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;

- (ii) adopt such rules as it considers appropriate regarding its proceedings;
- (iii) enter into discussions with the Issuer and/or other creditors of the Issuer; and
- (iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 16(b) (*Powers*), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

(c) Engagement with the committee and provision of information:

- (i) The Issuer shall:
 - (a) subject to paragraph (c)(ii) immediately below, engage with the committee in good faith;
 - (b) provide the committee with information equivalent to that required under Condition 14(f) (*Meetings of Noteholders; Written Resolutions – Information*) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and
 - (c) pay any reasonable fees and expenses of any such committee (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.
- (ii) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 16 (*Noteholders' Committee*) and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

(d) ***Certification:***

Upon the appointment of a committee, the person or persons constituting such a committee (the "**Members**") will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

- (i) that the committee has been appointed;
- (ii) the identity of the Members; and
- (iii) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 16(d) (*Certification*) shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 16(c)(ii) (*Engagement with the committee and provision of information*).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

17. **Notices**

Notices to Noteholders will be sent to them by mail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth weekday (excluding Saturday and Sunday) after the date of mailing.

So long as any of the Notes are represented by the Global Notes, notices required to be published in accordance with Condition 17 (Notices) may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the relevant accountholders.

18. **Further Issues**

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Fiscal Agency Agreement, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**").

Noteholders should note that additional securities that are treated as a single series for non tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount, as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may adversely affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.

19. **Currency Indemnity**

An amount received or recovered in a currency other than Euro (the "**Contractual Currency**") (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the liquidation of the Issuer or otherwise) by any Noteholder in respect of any sum expressed to be due to it from the Issuer will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the relevant Noteholder pursuant to these Conditions, the Issuer will indemnify such Noteholder against any loss sustained by it as a result on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar or any Paying and Transfer Agent with its Specified Office in London. In any event, the Issuer will indemnify the relevant Noteholder against the cost of making any such purchase.

20. **Governing Law; Jurisdiction and Arbitration**

(a) ***Governing law***

The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) ***Arbitration***

Subject to Condition 20(d) (*Noteholders' Option*), any claim, dispute or difference of whatever nature arising under, out of or in connection with the Notes (including a claim, dispute or difference regarding the existence, termination or validity of the Notes or any non-contractual obligations arising out of or in connection with the Notes) (a "**Dispute**"),

shall be referred to and finally settled by arbitration in accordance with the rules of the London Court of International Arbitration ("**LCIA**") (the "**Rules**") as at the time of the filing of the Request for Arbitration (as defined in the Rules) and as modified by this Condition 20(b) (*Arbitration*), which Rules shall be deemed incorporated into this Condition 20(b) (*Arbitration*). The number of arbitrators shall be three, one of whom shall be nominated by the claimant(s), one by the respondent(s) and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, **provided that** if the claimant(s) or the respondent(s) fails to nominate an arbitrator within the time limits specified by the Rules or the Chairman has not been nominated within 30 days of the nomination of the second party-nominated arbitrator, such arbitrator shall be appointed by the LCIA Court. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) ***Consolidation of arbitration proceedings***

If any Dispute has been referred to arbitration pursuant to Condition 20(b) (*Arbitration*), and another related dispute, controversy or claim has also been referred to arbitration pursuant to Condition 20(b) (*Arbitration*) or under the terms of the Fiscal Agency Agreement (together the "**Related Arbitrations**"), then, at any time after the arbitral tribunal has been appointed in relation to any one Related Arbitration (the "**Appointed Tribunal**") and before the arbitral tribunal has been appointed in relation to the other Related Arbitration, any party to each of the Related Arbitrations Representative Committee) may, after giving notice in writing to all parties to the Related Arbitrations, request that the Appointed Tribunal be appointed and have jurisdiction in relation to each of the Related Arbitrations, subject to the consent of the Appointed Tribunal and approval by the LCIA. In deciding whether to accept appointment in relation to any Related Arbitrations, the Appointed Tribunal shall consider whether the arbitrations raise common or related issues of law or fact and whether its appointment in the Related Arbitrations would serve the interests of justice and efficiency. Where the same arbitral tribunal has been appointed in relation to two or more Related Arbitrations pursuant to this Condition 20(c) (*Consolidation of arbitration proceedings*), the arbitral tribunal may, after consulting all parties to the Related Arbitrations, order that the whole or part of the matters at issue be heard together upon such terms or conditions as it sees fit.

(d) ***Noteholders' Option***

Any Noteholder may elect by notice in writing ("**Noteholder Election Notice**") to the Issuer that any Dispute(s) specified in the Noteholder Election Notice shall, as between itself and the Issuer, instead be heard by the courts of England or by any other court of competent jurisdiction specified in the Noteholder Election Notice, **provided that** a Noteholder Election Notice shall have no effect whatsoever in relation to a Dispute(s) that has already been referred to arbitration pursuant to Condition 20(b) (*Arbitration*). Upon the giving of a Noteholder Election Notice, no arbitral tribunal shall have jurisdiction in respect of the Dispute(s) specified in the Noteholder Election Notice as between the electing Noteholder(s) and the Issuer. For the avoidance of doubt, an election under this Condition 20(d) (*Noteholders' Option*) by one or more Noteholders shall not bind the other Noteholders, nor shall it affect the jurisdiction of any arbitral tribunal appointed in respect of any Dispute(s) between the Issuer and any Noteholders not making such an election.

(e) ***Jurisdiction***

In the event that any one or more Noteholder(s) gives a Noteholder Election Notice in respect of any Dispute(s) pursuant to Condition 20(d) (*Noteholders' Option*) specifying that such Dispute(s) be heard by the courts of England, the Issuer and the Noteholders agree that the courts of England shall have exclusive jurisdiction to hear and determine any such Dispute(s) and, for such purposes, irrevocably submit to the jurisdiction of such courts.

(f) ***Appropriate Forum***

For the purposes of Condition 20(e) (*Jurisdiction*), the Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any proceedings and agrees not to claim that any such court is not a convenient or appropriate forum.

(g) ***Service of Process***

The Issuer agrees that the process by which any proceedings are commenced in England pursuant to Condition 20(e) (*Jurisdiction*) or by which any proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 20(b) (*Arbitration*) may be served on it by being delivered to the Ambassador of Montenegro at 18 Callcott Street, London W8 7SU. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall appoint a further person in England to accept service of process on its behalf. Nothing in this Condition shall affect the right of Noteholders to serve process in any other manner permitted by law.

(h) ***Waiver of Immunity***

To the extent that the Issuer may in respect of any Proceedings or Dispute be entitled to claim for itself or its assets immunity from jurisdiction, suit, execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer irrevocably consents to the enforcement of any judgment or award and agrees not to claim and irrevocably waives such immunity, subject to Condition 20(i) (*Exclusions — Waiver of Immunity*) to the fullest extent permitted by the laws of the jurisdiction.

(i) ***Exclusions — Waiver of Immunity***

Notwithstanding any of the provisions of Condition 20(h) (*Waiver of Immunity*), the Issuer does not waive any immunity in respect of any present or future (i) "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 or (iii) military property or military assets or property or assets of Montenegro relating to any of the assets referred to in the foregoing sub-paragraphs (i) and (ii).

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM AND TRANSFER RESTRICTIONS

Summary of provisions relating to the Notes in Global Form

The Notes will be represented on issued by the Global Notes. Notes offered and sold outside the United States in reliance on Regulation S will be represented by interests in the Regulation S Global Note, in definitive fully registered form, without interest coupons attached, which will be deposited on or about the Issue Date with the Common Depositary and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg.

Notes offered and sold in reliance on Rule 144A will be represented by interests in the Rule 144A Global Note, in definitive fully registered form, without interest coupons attached, which will be deposited on or about the Issue Date with the Common Depositary and registered in the name of a nominee for such common depositary in respect of interests held through Euroclear and Clearstream, Luxembourg. The Rule 144A Global Note (and any Note Certificates (as defined below) issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Note as set forth under paragraph (iii) below.

The Regulation S Global Note will have an ISIN number and a Common Code and the Rule 144A Global Note will have a separate ISIN number and Common Code.

For the purposes of the Rule 144A Global Note and the Regulation S Global Note, any reference in the Conditions to "Note Certificate" or "Note Certificates" shall, except where the context otherwise requires, be construed so as to include the relevant Rule 144A Global Note or, as the case may be, the relevant Regulation S Global Note and interests therein.

Except in the limited circumstances described below, owners of interests in a Global Note will not be entitled to receive physical delivery of Definitive Note Certificates.

Amendments to the Conditions

Each Global Note contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments in respect of Notes evidenced by a Global Note will be made to the person who appears in the Register at the close of business on the Clearing System Business Day immediately prior to the due date for such payment against presentation for endorsement and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note to or to the order of the Fiscal Agent. A record of each payment of principal will be endorsed in the appropriate schedule to the relevant Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes. For the purposes of this paragraph, "**Clearing System Business Day**" means Monday to Friday, inclusive except 25 December and 1 January.

Payment Record Date

Each payment in respect of the Notes evidenced by a Global Note will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**").

Notices

So long as the Global Notes are held on behalf of Euroclear or Clearstream, Luxembourg (each, a "**Clearing System**") or any other clearing system (an "**Alternative Clearing System**"), notices to holders of Notes represented by the Global Notes may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

Meetings

The holder of a Global Note will (unless the Global Note represents only one Note) be treated as having

one vote in respect of each EUR 1,000 in nominal amount of Notes for which the relevant Global Note may be exchangeable.

Prescription

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by a Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 10 (*Taxation*) of the Notes).

Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the relevant Global Note.

Settlement of Pre-Issue Trades

It is expected that delivery of the Notes will be made against payment therefor on the Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes between the relevant date of pricing and the New Issue Date should consult their own advisers.

Electronic Consent and Written Resolution

While each Global Note is held on behalf of a relevant Clearing System, then:

- (a) approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant Clearing System(s) in accordance with their operating rules and procedures by or on behalf of (i) all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Fiscal Agency Agreement or (ii) (where such holders have been given at least 21 days' notice of such resolution) by or on behalf of:
 - (i) in respect of a proposal that falls within Conditions 14(b)(ii) and 14(b)(iii), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding Notes in the case of a Reserved Matter or more than 50 per cent. of the aggregate principal amount of the outstanding Notes, in the case of a matter other than a Reserved Matter;
 - (ii) in respect of a proposal that falls within Conditions 14(c)(ii) and 14(c)(iii), the persons holding at least 75 per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate);
 - (iii) in respect of a proposal that falls within Conditions 14(d)(ii) and 14(d)(iii), (x) the persons holding at least 66⅔ per cent. of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate); and (y) the persons holding more than 50 per cent. of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually),

(in the case of (i) and (ii), each an “**Electronic Consent**”) shall, for all purposes (including Reserved Matters) take effect as (i) a Single Series Extraordinary Resolution (in the case of (a) above), (ii) a Multiple Series Single Limb Extraordinary Resolution (in the case of (b) above) or (iii) a Multiple Series Two Limb Extraordinary Resolution (in the case of (c) above), as applicable, and shall be binding on all relevant Noteholders whether or not they participated in such Electronic Consent; and

- (b) where Electronic Consent is not being sought, for the purpose of determining whether a Written Resolution (as defined in the Fiscal Agency Agreement) has been validly passed, the Issuer shall be entitled to rely on consent or instructions given in writing directly to the Issuer by accountholders in the Clearing System with entitlements to such Global Note or, where the accountholders hold any such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held, whether such beneficiary holds directly with the accountholder or via one or more intermediaries and **provided that**, in each case, the Issuer has obtained commercially reasonable evidence to ascertain the validity of such holding and has taken reasonable steps to ensure that such holding does not alter following the giving of such consent or instruction and prior to the effecting of such amendment. Any resolution passed in such manner shall be binding on all Noteholders, even if the relevant consent or instruction proves to be defective. As used in this paragraph, "**commercially reasonable evidence**" includes any certificate or other document issued by the relevant Clearing System or any Alternative Clearing System, or issued by an accountholder of them or an intermediary in a holding chain, in relation to the holding of interests in the Notes. Any such certificate or other document shall, in the absence of manifest error, be conclusive and binding for all purposes. Any such certificate or other document may comprise any form of statement or print out of electronic records provided by the relevant clearing system (including Euroclear's EUCLID or Clearstream, Luxembourg's Creation Online system) in accordance with its usual procedures and in which the accountholder of a particular principal or nominal amount of the Notes is clearly identified together with the amount of such holding. The Issuer shall not be liable to any person by reason of having accepted as valid or not having rejected any certificate or other document to such effect purporting to be issued by any such person and subsequently found to be forged or not authentic.

Transfer Restrictions

A beneficial interest in a Rule 144A Global Note may be transferred to a person who wishes to take delivery of such beneficial interest through the Regulation S Global Note only upon receipt by the Registrar of a written certification from the transferor (in the form set out in the schedule to the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act.

Any beneficial interest in either the Rule 144A Global Note or the Regulation S Global Note that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Note will, upon transfer, cease to be a beneficial interest in such Global Note and become a beneficial interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Note for so long as such person retains such an interest.

The Notes are being offered and sold in the United States only to qualified institutional buyers within the meaning of and in reliance on Rule 144A. Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Notes offered hereby pursuant to Rule 144A will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A are used herein as defined therein):

- (i) the purchaser (a) is a QIB within the meaning of Rule 144A, (b) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (c) is aware that the sale of the Notes to it is being made in reliance on Rule 144A;
- (ii) the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except in accordance with the legend set out below; and
- (iii) the Rule 144A Global Note and any Rule 144A Note Certificates (as defined below) issued in exchange for an interest in the Rule 144A Global Note will bear a legend to the following effect, unless the Issuer determines otherwise in accordance with applicable law:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES, FOR THE BENEFIT OF THE ISSUER, THAT (A) THIS NOTE (AND ANY INTEREST HEREIN) MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE ISSUER, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER, IF AVAILABLE, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER JURISDICTION, AND THAT (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE (OR INTEREST HEREIN) FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (A) ABOVE.

THIS NOTE AND ALL RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT."

Each purchaser of Notes outside the United States pursuant to Regulation S will be deemed to have represented, agreed and acknowledged as follows:

- (i) it is, or at the time Notes are purchased will be, the beneficial owner of such Notes and is located outside the United States (within the meaning of Regulation S);
- (ii) it understands that such Notes have not been and will not be registered under the Securities Act and will not offer, sell, pledge or otherwise transfer such Notes except in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities laws of any State of the United States; and
- (iii) the Issuer, the Registrar, the Joint Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Exchange of Interests in Global Notes for Note Certificates

The Rule 144A Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates ("**Rule 144A Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, such Rule 144A Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Luxembourg Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

The Regulation S Global Note will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates ("**Regulation S Note Certificates**") if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal

holidays) or announces an intention permanently to cease business or does in fact do so or (b) an Event of Default (as defined and set out in Condition 12 (*Events of Default*) of the Notes) occurs. In such circumstances, such Regulation S Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Luxembourg Registrar notify the holders as soon as practicable after the occurrence of the events specified in (a) and (b).

In the event that the Rule 144A Global Note is to be exchanged for Rule 144A Note Certificates or the Regulation S Global Note is to be exchanged for Regulation S Note Certificates (together, "**Note Certificates**") the relevant Global Note shall be exchanged in full for the relevant Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders.

On exchange, a person having an interest in a Global Note must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and such Registrar may require to complete, execute and deliver such Note Certificates and (ii) in the case of the Rule 144A Global Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Note Certificates issued in exchange for a beneficial interest in the Rule 144A Global Note shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*", Rule 144A Note Certificates issued as described above will not be exchangeable for beneficial interests in the Regulation S Global Note and Regulation S Note Certificates issued as described above will not be exchangeable for beneficial interests in the Rule 144A Global Note.

In addition to the requirements described under "*Transfer Restrictions*" above, the holder of a Note may transfer such Note only in accordance with the provisions of Condition 3 (Transfer of Notes) of the Notes.

Upon the transfer, exchange or replacement of a Rule 144A Note Certificate bearing the legend referred to under "*Transfer Restrictions*" above, or upon specific request for removal of the legend on a Rule 144A Note Certificate, the Issuer will deliver only Rule 144A Note Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

The Registrar will not register the transfer of any Notes or exchange of interests in a Global Note for Note Certificates for a period of 15 calendar days ending on the due date of any payment of principal or interest in respect of such Notes.

Failure to deliver Definitive Note Certificates or to pay

If:

- (a) definitive Note Certificates have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the relevant Global Note; or
- (b) any of the Notes evidenced by a Global Note has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the relevant Global Note on the due date for payment in accordance with the terms of the relevant Global Note,

then, at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) the Registrar shall in respect of each person shown in the records of the Clearing Systems (or any Alternative Clearing System) as being entitled to interest in the Notes (each an "**Accountholder**"), enter in the Register the name of such Accountholder as the holder of direct rights in respect of the Notes in an aggregate principal amount equal to the principal amount shown

in the records of the Clearing Systems (or any Alternative Clearing System) of such Accountholder's interest in the Notes. To the extent that the Registrar makes such entries in its Register, the holder will have no further rights under the Global Note, but without prejudice to the rights which the holder or Accountholders may have. Accountholders will acquire directly against the Issuer, subject to their rights being entered in the Register as described above and subject as provided in the Global Note, all those rights to which they would have been entitled if, immediately before the date on which the Registrar is required to enter in its Register the rights of the Accountholders, they had been the registered holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of the Clearing Systems or any Alternative Clearing System (as the case may be).

Euroclear and Clearstream, Luxembourg Arrangements

So long as Euroclear or Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of a Global Note, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Fiscal Agency Agreement and the Notes. Payments of principal, interest and additional amounts, if any, in respect of Global Notes will be made to Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, the Fiscal Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by Euroclear or Clearstream, Luxembourg from an Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers in accordance with the relevant system's rules and procedures.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the Register on the close of business on the Clearing System business day before the due date for such payment (the "**Record Date**"). Principal and interest with respect to the Rule 144A Note Certificates and the Regulation S Note Certificates on redemption will be paid to the holder shown on the Register on the Record Date upon delivery and surrender of the relevant Note Certificate. Trading between the Rule 144A Global Note and the relevant Regulation S Global Note will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Note to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of the Common Depositary to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg. Beneficial ownership in Notes will be held through financial institutions as direct and indirect participants in the Clearing Systems.

Interests in a Regulation S Global Note and the Rule 144A Global Note will be in uncertificated book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Account Holders

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional eurobonds.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg in order to facilitate the transfers of interests in the Notes among participants of Clearstream, Luxembourg and Euroclear, neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Fiscal Agent, any other Agent, the Registrar or any of the Joint Lead Managers or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by Euroclear and Clearstream, Luxembourg or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used for general budgetary governmental purposes of the Issuer including, without limitation, capital budget financing and may also be used for the repayment of outstanding indebtedness and to partly finance the highway construction of the Bar-Belgrade Motorway. See "*Indebtedness—Overview*".

MONTENEGRO

Geography and Population

Montenegro is located in South-Eastern Europe and is bordered by Croatia to the West, Bosnia and Herzegovina to the North-West, Serbia to the North-East, Kosovo to the East and Albania to the South-East. To the South-West, Montenegro has 293 kilometres of coastline on the Adriatic Sea, on the other side of which lies Italy.



Montenegro covers an area of approximately 14,000 square kilometres. The capital and administrative centre of Montenegro is Podgorica, where the Government of Montenegro (the "**Government**") and most of the other state institutions are located. The historic royal capital is Cetinje where certain of the country's governmental and cultural institutions and the office of the President are located.

The total population of Montenegro is approximately 620,000 (according to the last census conducted in 2011), with approximately 63 per cent. of the population living in urban areas and the remainder in rural areas. The population density is approximately 44 persons per square kilometre. The highest population concentration is in the Podgorica municipality (which includes the municipalities of Tuzi and Golubovci), with a population of approximately 185,000, making up approximately 26 per cent. of the national total.

Historical Background

The history of Montenegro dates back to the ninth century with the development of Duklja, which encompassed approximately the territories of present-day Montenegro. The medieval country had three reigning dynasties before it was annexed by the Ottoman Empire at the end of the 15th century, but managed to preserve a level of autonomy throughout. Following constant rebellions by the Montenegrins against the Ottoman Empire, Montenegro became a theocracy until 1852, when Prince Danilo decided to renounce his ecclesiastical position and as a result, Montenegro became a principality.

Montenegro was the first Balkan country to achieve full independence in the Berlin Congress in 1878. In 1918, at the end of the First World War, it became part of the Kingdom of Yugoslavia ("**Yugoslavia**"), which was initially established as the union of the States of Slovenes, Croats and Serbs, and after the Second World War became a republic, one of six forming the Socialist Federal Republic of Yugoslavia.

After the dissolution of Yugoslavia in 1992, Montenegro, together with Serbia, remained part of the Federal Republic of Yugoslavia. The status of the federation between Montenegro and Serbia was decided by the referendum on Montenegrin independence on 21 May 2006, and as a result Montenegro declared its independence on 3 June 2006.

Political System and Developments

Constitution

The current constitution of Montenegro (the "**Constitution**") was ratified and adopted by the Constitutional Parliament of Montenegro on 19 October 2007. The Constitution established a democratic republic with a multiparty political system and is based on the separation of powers between the legislature, executive and judiciary. The Parliament of Montenegro subsequently adopted amendments to the Constitution on 31 July 2013, which were aimed at enhancing the independence of the judiciary.

Under the Constitution, the President of Montenegro (the "**President**") serves a five-year term and may only serve two terms. In order to be eligible for the position a person must be a citizen of Montenegro and must have lived in Montenegro for 10 of the 15 years prior to his candidature. The President proposes candidates for the role of Prime Minister of the Government (the "**Prime Minister**") who is then appointed by the Parliament. The Prime Minister, in turn, appoints Government Ministers.

Legislature

Montenegro has a single chamber Parliament, which consists of 81 elected members who are elected in a national general election for a four-year term. The Parliament passes all laws of Montenegro, ratifies international treaties, appoints the Prime Minister, adopts the budget and performs all other duties specified for it in accordance with the Constitution. Laws are passed by majority vote, except that certain laws including those which deal with certain constitutional rights and the election of the Constitutional Court judges, Supreme State Prosecutor and members of the Council (as defined below) can only be passed by (in certain cases) a two-thirds majority of all members. The President promulgates laws validly enacted by the Parliament.

The Executive

The President is elected by universal suffrage. The current President, Mr. Filip Vujanović, was first elected in 2003 and was then re-elected for five-year terms in 2008 and in April 2013, with 51.2 per cent. of the total vote in 2013 elections. Prior to the 2013 elections, the opposition appealed to the Constitutional Court of Montenegro to challenge Mr. Vujanović's candidacy for the 2013 presidential elections on the grounds that under the Constitution, the President may only serve two terms and that the term commencing in 2013 would be his third term. In February 2013, the Constitutional Court of Montenegro approved Mr. Vujanović's presidential candidacy, noting that for his 2003-2008 term he was elected as the President of the Republic of Montenegro, which was a constituent entity of the State Union of Serbia and Montenegro, and that he served as *de facto* head of State of Montenegro during 2006-2008 (following Montenegro's declaration of independence in 2006) and that, consequently, the term commencing in 2008 was his first term as the President of the State of Montenegro. The President promulgates laws, calls elections for the Parliament, proposes candidates for the role of Prime Minister, confers decorations and awards and performs all other duties specified for him in accordance with the Constitution.

The national Government is organised into 16 ministries and is led by the Prime Minister, Mr. Milo Djukanovic. Mr. Djukanovic was appointed Prime Minister following elections in 2009. Mr Djukanovic resigned in December 2010 and at its session held on 29 December 2010, the Parliament appointed a new Government led by Igor Luksic, the former Deputy Prime Minister and Minister of Finance. Mr. Djukanovic was appointed the Prime Minister following parliamentary elections in 2012.

Following the parliamentary elections in 2012, the Government is led by a coalition of the Democratic Party of Socialists ("**DPS**"), the Social Democratic Party ("**SDP**") and certain minority parties.

The Judicial System

Montenegro's three-tier judicial system is independent. The first level comprises the Basic courts, with the Superior courts making up the next level of the court system. The Supreme Court is the highest court in

Montenegro. Other specialised courts exist to deal with commercial and administrative law matters. Judges are elected by the Judiciary Council of Montenegro (the "**Council**"). The Council is appointed for four years and consists of the President of the Supreme Court, four judges elected by the Conference of Judges, two are elected by members of the Parliament, four renowned lawyers elected by members of the Parliament and the Minister of Justice. Newly appointed judges are appointed for a four-year term and may be removed in accordance with the Constitution and the Law on Courts. In 2014, Montenegro changed the number of specialised commercial courts from two to one, thereby increasing the level of responsibility, accountability and consistency in such court. In January 2015, a special state prosecutor was appointed, who is expected to address aspects of corruption and money laundering.

The Constitutional Court consists of seven judges who are elected for nine years by the Parliament and may only serve one term. It has the authority to annul unconstitutional laws and regulations, and to decide on jurisdictional questions between the legislature, executive and judiciary. It also has the power to impeach the President. This Court's function includes protecting the constitutional freedom and rights of citizens. See also "*Risk Factors—Risk Factors Relating to Montenegro—The uncertainties relating to the Montenegrin judicial system, including the inability to enforce foreign judgments, could have an adverse effect on its economy and thus on the ability of Montenegro to repay principal and make payments of interest on the Notes*".

Local Governments

Montenegro has 23 areas of local government, comprising 21 municipalities, one for the capital city, Podgorica, and one for the historic royal capital city, Cetinje. The local government of Podgorica also encompasses two smaller nearby municipalities, Tuzi and Golubovci.

The following table sets out the size and population of each municipality, according to the last census conducted in 2011.

Municipality	Area (in square km)	Population
Andrijevica	283	5,071
Bar	598	42,048
Berane	717	33,970
Bijelo Polje	924	46,051
Budva	122	19,218
Danilovgrad	501	18,472
Zabljak	445	3,569
Kolasin	897	8,380
Kotor	335	22,601
Mojkovac	367	8,622
Niksic	2,065	72,443
Plav	486	13,108
Pluzine	854	3,246
Pljevlja	1,346	30,786
Podgorica	1,441	185,937
Rozaje	432	22,964
Tivat	46	14,031
Ulcinj	255	19,921
Herceg Novi	235	30,864
Cetinje	910	16,657
Savnik	553	2,070
Total	13,812	620,029

Source: MONSTAT

In 2014, the Parliament of Montenegro adopted the Law on Amendment of Law on Territorial Organisation, which became effective in March 2014 and created two more municipalities in Montenegro, increasing the total number of municipalities to 21. The new municipalities are Petnjica and Gusinje, with total population of 6,713 people and 4,239 people, respectively, and areas of 173 square kilometres and 157 square kilometres, respectively. Prior to this, these municipalities were part of the Berane and Plav municipalities, respectively.

Each municipality's powers are granted to it by the Law on Local Governance and the Law on Local Government Finance (the "**Local Government Laws**"). In accordance with the Constitution and the Local Government Laws, each municipality may conduct the following activities:

- prepare development plans;
- establish programmes for certain activities such as utility and transport infrastructure, land development, tourism and sport;
- develop spatial and other plans;
- provide and execute local government budgetary measures;
- set up plans for investment in local infrastructure; and
- perform any other actions within its competencies.

Municipalities are also stakeholders in local utility companies providing water and waste services as well as public services such as fire fighting.

International Relations

Montenegro's relationship with the international community

European Union

Montenegro's full membership of the European Union ("EU") is a key strategic goal of the Government. The Government has had indications of overwhelming public support and cross party consensus on this issue. In July 2009, Montenegro received the Questionnaire of the European Commission (the "Questionnaire") as a next step towards full membership of the EU. After responding to the Commission's initial questions (673 in total), Montenegro subsequently answered 74 additional questions in the Questionnaire and submitted it to the Directorate General for Enlargement on 12 April 2010. The country's EU Stabilisation and Association Agreement (the "SAA") became effective on 1 May 2010, which created an institutional framework for co-operation between Montenegro and the EU and resulted in the establishment of a Stabilisation and Association Council, a Stabilisation and Association Committee, seven sub-committees and a Parliamentary Stabilisation and Association Committee. Since then, Montenegro continues to implement its obligations under the SAA. The Stabilisation and Association Council, Stabilisation and Association Committee and sub-committee meetings are held annually, while the stabilisation and association meetings between representatives of the European Parliament and the Montenegrin Parliament continue to be held bi-annually. Members of the Joint Consultative Committee, which includes representatives from the EU Committee of the Regions and Montenegro's local authorities, were appointed in March 2012. A Civil Society Joint Consultative Committee, which consists of representatives of the European Economic and Social Committee and civil society organisations of Montenegro, held its inaugural meeting in October 2012.

On 17 December 2010, the European Council recognised Montenegro's progress by granting it candidate country status. In December 2011, the European Council launched the accession process with a view to opening negotiations in June 2012. The accession negotiations with Montenegro commenced on 29 June 2012. Until recently, Montenegro was the only country in the Western Balkans involved in accession negotiations with the EU, however Serbia commenced accession negotiations in January 2014.

The process of harmonisation with the *acquis communautaire* (the legislation and court decisions which constitute the body of EU law) will need to take place prior to Montenegro's accession to the EU. The *acquis communautaire* is divided into 35 chapters for the purposes of negotiations between the EU and the candidate member states. In order to meet the EU accession criteria, the chapters are screened by the European Commission, following which negotiations with respect to each chapter are opened and continue until resolved, at which point the chapter is considered to be closed.

The screening of the chapters on Science and Research; Education and Culture; Judiciary and Fundamental Rights; and Justice, Freedom and Security was completed in 2012, while the screening for the remaining chapters was completed in June 2013. As part of this process, the European Commission and Montenegro reviewed Montenegrin laws to determine what differences exist between them and existing EU directives. Screening reports to be prepared by the European Commission for all chapters will provide guidance for further planning of the process of alignment of Montenegrin legislation with EU laws and the integration process as a whole. Based on the results of the screening, the Government adopted its Accession Program of Montenegro to the European Union 2014-2018 (the "AP"), which is a

strategic document that sets out the steps to be taken for the EU accession process. In particular, the AP focuses on three key areas: political, economic and implementation of EU legislation (i.e. compliance with the EU's so called "**Copenhagen criteria**").

On 18 December 2012, Montenegro opened and temporarily closed Chapter 25 (*Science and Research*), and on 15 April 2013 Montenegro opened and temporarily closed Chapter 26 (*Education and Culture*). Chapters 5 (*Public Procurement*), 6 (*Company Law*), 20 (*Enterprise and Industrial Policy*), 23 (*Judiciary and Fundamental Rights*) and 24 (*Justice, Freedom and Security*) have been open since 18 December 2013, while Chapters 7 (*Intellectual Property Rights*) and 10 (*Information, Society and Media*) have been open since 31 March 2014. On 24 June 2014, Montenegro opened three additional chapters: 4 (*Free Movement of Capital*), 31 (*Foreign, Security and Defence Policy*) and 32 (*Financial Control*). On 16 December 2014 Montenegro opened an additional four chapters: 18 (*Statistics*), 28 (*Consumer and Health Protection*), 29 (*Customs Union*) and 33 (*Financial and Budgetary Provisions*). Temporary closure means that, if it deems it necessary, the EU may re-open the chapter at a later date. Negotiations with respect to the remaining chapters are expected to be opened following the completion of the screening process.

On 8 October 2014, the European Commission adopted a progress report (the "**Progress Report**") on Montenegro which was published as part of the 2014 Enlargement Package. This was the third Progress Report on Montenegro since the country opened accession negotiations with the EU in June 2012. The European Commission concluded that the country has made further progress in establishing a functioning market economy, has improved its ability to take on the obligations of EU membership, and continues to sufficiently meet the political criteria. The screening meetings have been completed and the Government has received reports for all screening chapters. The accession negotiations have integrated the new approach for Chapters 23 (*Judiciary and Fundamental Rights*) and 24 (*Justice, Freedom and Security*). Within the framework of the accession negotiations, the screening process was completed in May 2014. By mid-December 2014, 16 chapters, including chapters 23 and 24, had been opened. Montenegro has adopted action plans for both chapters. On this basis, Montenegro was invited to send its negotiating position on these chapters, which it submitted in October 2013. The implementation of the action plans will determine the overall pace of the negotiations. The Progress Report has suggested that Montenegro will need to further develop its track record in the areas covered by Chapters 23 and 24, in particular with respect to corruption and organised crime.

The timing of Montenegro attaining full membership of the EU will depend on a number of economic and political factors relating to both Montenegro and the EU. However, the European Commission has stated that no new members will join the EU in the next five years, and therefore accession is unlikely until 2020. See "*Risk Factors—Risk Factors Relating to Montenegro—Montenegro may not become a member of the EU in the near to medium term or at all*".

North Atlantic Treaty Organisation

Membership of the North Atlantic Treaty Organisation ("**NATO**") is another important goal of Montenegro. In December 2006, Montenegro signed the Framework Document of the Partnership for Peace with NATO and after three years of being actively involved in this programme, in December 2009 Montenegro was invited to submit its Membership Action Plan ("**MAP**"). The Government believes that this invitation represents confirmation of its overall reform processes and achievements and is an important step on the path towards full membership of NATO.

At the meeting of the foreign ministers of the NATO members in Brussels held on 3-4 December 2009, Montenegro was admitted to the MAP on the basis of its progress with internal reforms and fulfilling its obligations under various programmes and plans associated with its accession process. On 16 September 2010, the Government of Montenegro adopted the first Annual National Programme ("**ANP**") under the first cycle of its MAP, which was presented to NATO on 28 October 2010.

At the NATO Summits in Lisbon on 19-20 November 2010 and in Chicago on 20 May 2012, Heads of State and the Government adopted the declaration in which NATO members welcomed the significant progress that Montenegro has made towards NATO membership and its contribution to security in the Western Balkans region and beyond, including through its active role in regional cooperation activities and its participation in International Security Assistance Force. They concluded that Montenegro's active engagement in the MAP process demonstrated firm commitment to join NATO and that Montenegro has successfully implemented significant political, economic and defence reforms.

Currently, Montenegro is in the fourth cycle of MAP, as the Government adopted the fourth ANP on 17 October 2013 and presented it to NATO on 28 October 2013. The NATO Report on the implementation of the third ANP was presented at the ministerial meeting on 9 July 2013. Following the September 2014 NATO summit, NATO leaders announced that NATO will open intensified and focused talks with Montenegro and will assess by the end of 2015 whether to invite Montenegro to join NATO. Should Montenegro be invited to join NATO in 2015, fully-fledged membership normally follows one year after, as a result of a technical process which needs to be completed in all NATO member states. Additionally, upon joining NATO, Montenegro will be required to pay 2 per cent. of its GDP as contribution to NATO's defence funds. In the 2015 budget, Montenegro allocates approximately €42.6 million, or 1.2 per cent. of GDP, for the budget for the Ministry of Defence. However, the timing of Montenegro joining NATO will depend on a number of economic and political factors relating to both Montenegro and NATO.

World Trade Organisation

Montenegro became a full member of the World Trade Organisation ("**WTO**") in April 2012.

Other

Montenegro is also a member of various other international institutions and organisations. In 2006, Montenegro became a member of the United Nations and the Organisation for Security and Co-operation in Europe. In 2007, Montenegro became a member of the World Bank, the International Monetary Fund (the "**IMF**") and the Council of Europe. In 2007, Montenegro became a member of the European Bank for Reconstruction and Development (the "**EBRD**").

Montenegro and regional relationships

Regional cooperation and good neighbourly relations form an essential part of Montenegro's process of joining the EU. Montenegro continues to be strongly involved in developing regional cooperation. It is also continuing to actively participate in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC), the Central European Free Trade Agreement (CEFTA), the Energy Community Treaty and the European Common Aviation Area Agreement. Montenegro continues to maintain good bilateral relations with other enlargement countries, which comprise Albania, the Former Yugoslav Republic of Macedonia, Iceland, Serbia and Turkey and with neighbouring EU member state Italy.

Italy is one of the most significant foreign partners of Montenegro. Montenegro has entered into a number of bilateral economic initiatives with Italy, such as the Italian-Montenegrin Business Union in early 2009, initiatives in the areas of energy and transport, and the opening of the Office of the Italian Institute for Foreign Trade in Podgorica. In 2013, the delegation of Confindustria, which included more than 50 representatives of the Italian business community, visited Montenegro. The agreement on cooperation in the area of environmental protection was signed between Italy and Montenegro in November 2012. In addition, both governments have attached significance to the co-operation projects in relation to ports, railways and road transport.

In June 2009, a Memorandum of Understanding between the Ministry of Economy of Montenegro, the Ministry of Economic Development of Italy and the Ministry of Infrastructure of Serbia was signed relating to the reconstruction and modernisation of the Bar-Belgrade railway, with the total estimated cost of approximately €1.5 billion, which is of strategic importance to the transport system of Montenegro and South Eastern European region.

Italian enterprises have also made investments in the Montenegrin energy sector, primarily through the participation by the Italian company A2A S.p.A. in the capital increase of the Electric Enterprise of Montenegro ("**EPCG**") and a project for underwater transmission cables between Italy and Montenegro worth approximately €863 million. See "*The Economy—Principal Sectors of the Economy—Energy production*" for more information regarding this project.

Montenegro's relationship with Serbia is a key priority for the Government. Serbia has been one of Montenegro's largest trading partners by value in recent years. A number of bilateral treaties and acts were signed between Montenegro and Serbia since Montenegro's independence in 2006. In May 2009, agreements relating to legal aid between Montenegro and Serbia were signed in Podgorica. The two

governments signed a number of agreements on policies in various economic sectors, a cooperation agreement in relation to air traffic control, and a protocol on cooperation in searching for missing people. The two countries intensified their cooperation in the area of fighting organised crime and corruption and signed agreements on re-admission and consular protection in third countries. Re-admission agreements set out the obligations and procedures for the authorities of a non-EU country and EU Members regarding the admission back of citizens of the non-EU country who illegally reside in the EU. The agreement on police cooperation entered into force in March 2013. Further agreements on economic co-operation and the reciprocal promotion and protection of investment between Montenegro and Serbia will be required to facilitate the efficient economic co-operation between the two countries.

Bilateral relations between Montenegro and Croatia are very strong and positive, with economic co-operation being of particular strategic significance. In 2014, Croatia ranked second on the list of Montenegrin trading partner countries by value. A representative office of the Chamber of Commerce of Montenegro was opened in Zagreb in September 2008. The two countries recently signed an agreement on mutual enforcement of court decisions in criminal matters and a memorandum on cooperation in the area of health care. In February 2013, additional agreements on economic cooperation and cooperation in the tourism sector were signed.

Relations between Montenegro and Albania have historically been, and continue to be, friendly. The first joint border crossing in the South Eastern European region — Sukobin-Muriceani (financed by the European Commission CARDS Funds and worth approximately €1.1 million) was opened on 18 June 2009. The two countries have focused on co-operation in the energy field as the energy system of Montenegro is connected to the energy system of Albania through the 220 kW Podgorica-Skadar long-distance power line. The project for the construction of the long-distance power line of 400 kW between Podgorica and Tirana is underway. In the longer term, the Government is also considering the construction of a motorway between Montenegro and Albania.

Cooperation with Albania recently intensified in the area of economic and trade relations. The third Albanian-Montenegrin business forum took place in March 2013. The two countries also commenced discussions in relation to an agreement on cooperation in education and have signed agreements on the recovery of Albania's debt to Montenegro and on opening a new joint border crossing point and a cooperation plan on defence. A protocol on electronic exchange of customs data was signed on 7 September 2012.

Relations with Bosnia and Herzegovina continue to be good. Agreements have been signed in various fields of cooperation, including international transport, mutual protection of classified information, extradition, legal aid and enforcement of court decisions. A dual citizenship agreement was entered into in June 2012.

Montenegro continues to maintain good relations with Kosovo and negotiation talks are underway in a number of areas, including judicial, economic and tourism sector cooperation.

Cooperation with the Former Yugoslav Republic of Macedonia continues to strengthen. The two countries entered into agreements on extradition, economic cooperation and the EU accession process. Agreements on the re-admission of persons residing without authorisation and on police cooperation were also signed.

Montenegro also enjoys good relations with Turkey. The two countries signed a number of agreements in the areas of protection and promotion of investments, air transportation and social security, and a memorandum of understanding in relation to education. In April 2013, a bilateral agreement was signed in the areas of re-admission, consular cooperation, science and technology, health insurance, and small and medium enterprises. Various activities were also undertaken in 2013 to strengthen economic ties. In particular, a session of the joint committee for implementation of the Free Trade Agreement took place in April 2013, where various options relating to economic cooperation between Montenegro and Turkey were discussed. A business forum of Montenegrin and Turkish businessmen was organised in September 2013 in Podgorica. Turkish company Global Ports Holding purchased 62.09% of share capital of the Montenegrin company Container Terminals and General Cargo based in Bar in November 2013. In December 2014, Turkish Ziraat bank submitted an official request to open a bank branch in Montenegro. In addition, the consulate of Montenegro in Izmir was opened in October 2013.

Montenegro has good relations with the Russian Federation, and tourists from Russia account for a large proportion of tourist visitors to Montenegro. Montenegro has joined the EU with respect to the sanctions imposed by the EU on Russia as at the date of this Prospectus following Russia's annexation of the Crimea peninsula and would implement such future sanctions (as needed) as if it were an EU member state, the Government does not expect that this will have a material impact on Montenegro's relations with Russia.

Relations between Montenegro and Austria are very good, and the countries cooperate in many areas. In particular, Montenegro benefits from Austria's support in attaining EU membership. Participation of Austria in various projects assisted in amending Montenegrin laws to make them closer to the EU standards, including with respect to a judiciary reform and reforms in the areas of customs, internal affairs, police force, agriculture and sustainable development. During 2013, various activities aimed at strengthening the economic cooperation between the two countries took place. In particular, the conference "Vienna Economic Talks – Meet Montenegro" was organised by the Vienna Economic Forum and the Government of Montenegro to present to Austrian business community the economic momentum in Montenegro, with focus on economic and investment potentials, particularly in the sectors of energy, tourism and agriculture.

THE ECONOMY

Background

Comprehensive economic reforms in Montenegro and economic development based on the principles of private ownership, free markets, openness to trade, the free flow of capital and competitive tax policies contributed to growth in the country's GDP of on average approximately 8.7 per cent. per annum in real terms during 2006 to 2008. The declaration of independence in June 2006 also had a positive impact on economic growth. However, following the global financial and economic crisis in 2008 and 2009, Montenegrin GDP contracted by 5.7 per cent. in 2009, grew by 2.5 per cent. and 3.2 per cent. in 2010 and 2011, respectively, contracted by 2.5 per cent. in 2012 and grew by 3.3 per cent. in 2013, in each case in real terms. Preliminary MONSTAT data indicates that the Montenegrin economy recorded a 1.3 per cent. growth in GDP in real terms in the third quarter of 2014 as compared to the third quarter of 2013 and the estimated GDP growth for the year ended 31 December 2014 is 2.0 per cent. Going forward, the principal objectives for Montenegro include EU accession, further restructuring and reforming the public sector and State administration, developing sustainable pension and health systems, reforming the judicial system, enacting labour market reforms and further improving the overall business environment. Many of Montenegro's recent and planned reforms are designed to harmonise with relevant EU standards. Montenegro was ranked the 36th country out of 189 in the 2015 World Bank's Doing Business Survey (a higher ranking means the regulatory environment is more conducive to the starting and operation of a local business).

The Government is dedicated to improving the business environment in Montenegro. It has set up a Council for Eliminating Business Barriers (the "**Council**") in co-operation with the World Bank, with the aim of simplifying administrative procedures and reducing red tape. Representatives of the private sector are also members of the Council. The Government is also currently working on establishing a "one-stop-shop" approach to deal with property issues (including issuing construction permits), licensing, tax administration and bankruptcy procedures in order to improve the environment for economic growth, as these are some of the issues identified by the business community as bottlenecks for future growth. In the future, the Government also plans to introduce an online business registration service, make business registration service available in all regional tax administration offices and introduce certain improvements in the area of contracts enforcement. Furthermore, the Government is also in the process of implementing planned structural reforms in the areas of education and healthcare and pension systems as well as a regulatory reform of the public sector in order to make it more efficient and effective.

The International Finance Corporation ("**IFC**") and the Government undertook a Regulatory Impact Assessment ("**RIA**") project to assess the country's existing regulatory framework and make recommendations as to what aspects of regulation can be simplified and streamlined. RIA is a method used during the adoption of new legislation or amendment of existing legislation and involves a consultative process with all stakeholders. This process is conducted before the adoption or amendment of new legislation and is based on documents that indicate costs and benefits of the law's implementation or amendment. Following the completion of the RIA project, the Government conducted a set of training programmes for civil servants and in April 2011 adopted a handbook on RIA implementation. Starting from 1 January 2012, the RIA method became mandatory for implementation or amendment of legislation in Montenegro.

Reform efforts in the labour market, public administration and legislation have contributed to the improvement of the overall business climate in Montenegro in recent years. Efforts aimed at enhancing the protection of property rights, streamlining legal and administrative procedures, and reducing backlogs at government offices continue to be important priorities, as they are not only expected to improve the business environment in Montenegro but are also important aspects of the EU accession process. See "*Montenegro — International Relations — Montenegro's relationship with the international community — European Union*".

In conjunction with its efforts to improve the country's overall business climate, the Government is committed to fighting against corruption. According to the Council of Europe's Group of States Against Corruption (GRECO) report, since 2006 Montenegro has satisfactorily implemented a substantial majority of its recommendations, more than any other Balkan nation.

The following table shows Montenegro's ranking in the 2014 Transparency International Corruption Perceptions Index as compared to other countries in the region. The Corruption Perceptions Index ranks

175 countries and territories based on how corrupt their public sector is perceived to be. A country or territory's score indicates the perceived level of public sector corruption on a scale of 0 - 100, where 0 means that a country is perceived as highly corrupt. A country's rank indicates its position relative to the other countries and territories included in the index.

Overall Rank	Country/Territory	Corruption Perceptions Index 2014 Score
61	Croatia	48
64	Turkey.....	45
64	FYR Macedonia	45
69	Italy	43
69	Bulgaria	43
76	Montenegro	42
78	Serbia	41
80	Bosnia and Herzegovina.....	39
110	Albania	33

Source: 2014 Transparency International Corruption Perceptions Index

Economic Developments and Trends

Economic growth in Montenegro between 2007 and 2008 was mainly due to the growth of the service segments of the economy, principally tourism, transport, trade and construction, and was fuelled by high levels of FDI and lending activity in the banking sector (see also "*Balance of Payments and Foreign Trade — Foreign Direct Investment*"). Growth of FDI in the 2007 – 2009 period totalled 60 per cent. of GDP, while net FDI over the same period totalled approximately 70 per cent. of GDP. Average FDI per capita in those years was over €1,000, giving Montenegro one of the highest levels of FDI per capita in the Central Eastern European and South Eastern European countries. FDI inflow decreased in 2010 and 2011, increased slightly in 2012 and decreased to approximately \$447 million in 2013, according to the 2014 World Investment Report published by the United Nations Conference on Trade and Development.

The global financial and economic crisis in 2008 and 2009 had a pronounced impact on the Montenegrin economy. The effects of the crisis were first felt in Montenegro in October 2008, intensified towards the end of that year and continued to the end of 2009. As a result, in 2009 Montenegrin GDP contracted by 5.7 per cent. in real terms. As the Montenegrin economy started to recover from the effects of the crisis in 2010 (principally due to growth in the tourism and manufacturing and power sectors), the country's GDP grew by 2.5 per cent. in that year and further by 3.2 per cent. in 2011. In 2012 and 2013, the Montenegrin GDP contracted by 2.5 per cent. and grew by 3.3 per cent., respectively, in real terms. Preliminary data shows that the Montenegrin economy recorded a GDP growth of 1.3 per cent. in the third quarter of 2014 as compared to the third quarter of 2013 and 2.0 per cent. in 2014, which was in line with Government expectations.

Impact of global financial and economic crisis in 2008 and 2009

The global financial and economic crisis in 2008 and 2009 led to a significant drop in confidence in the country's banking sector, resulting in an outflow of deposits in late 2008 of approximately €350 million, or 15.2 per cent. of total deposits. This trend continued in 2009 with total deposits falling by a further 8.3 per cent. at the end of 2009 compared to the end of 2008. The Government reacted to the crisis by implementing a number of measures in relation to the banking sector, principally the adoption of the Law on the Banking System Safeguards in October 2008, thereby preventing a further outflow of deposits in 2009. This outflow, in turn, led to a marked decline in the credit activities of banks, with overall loan issuance volumes decreasing by 14.3 per cent. in 2009 compared with 2008. By the end of 2009, total assets of the banking sector had fallen by 8.6 per cent. compared with 2008 to €3,025.2 million. See "*Monetary and Financial System — Measures of economic, prudential and monetary policy in the banking system*" and "*Risk Factors — Montenegrin economy remains vulnerable to external shocks, which could have an adverse effect on Montenegro's economic growth*".

Even though the Government responded swiftly with a range of measures, including the Supplemental Budget for 2009 adopted by the Parliament in July 2009, in order to reduce public expenditure, the 2008 central government budget surplus of 0.5 per cent. of GDP was reversed in 2009 to a deficit of 4.4 per cent. of GDP. An increase in interest expense resulting from an increase in Government debt from €894.7 million as at the end of 2008 to €1,140.2 million as at the end of 2009 also contributed to this change. Nevertheless, fiscal policies adopted by the Government to a certain extent mitigated the negative impact

of the crisis on Montenegro's public finances, despite the decrease in central budget revenues in 2009 and the contraction of the economy by 5.7 per cent. in that year.

Reduced economic activity in 2009 was accompanied by a significant decline in foreign trade, which decreased by 35.0 per cent. in 2009 as compared to 2008.

The labour market in Montenegro was largely unaffected by the global financial and economic crisis until the end of the third quarter of 2009. According to data from the Montenegrin Employment Office, the unemployment rate at the end of 2009 was 11.4 per cent., or 1.2 per cent. lower than at the end of 2007 and 0.5 per cent. higher than at the end of 2008. The unemployment rate started to increase during 2010 as the effects of the crisis began to take hold and increased to 12.4 per cent. by the end of March 2010. It decreased somewhat during the main tourist season in the summer of 2010.

Economic recovery in 2010 and 2011

2010

In 2010, the Montenegrin economy began to recover and posted a GDP growth of 2.5 per cent. in real terms, with almost all sectors of the economy (other than government-related services) experiencing growth. In particular, power production and tourism led the overall recovery and recorded growth of more than 0.5 per cent. per annum than originally forecast in the Budget Law for 2010. The 2009 general Government budget deficit of 5.7 per cent. of GDP was almost halved to 3 per cent. of GDP in 2010, while gross debt increased to 42 per cent. of GDP as at the end of 2009 from 38 per cent. as at the end of 2008 (with net debt at 37.3 per cent. as at the end of 2009, up from 31 per cent. as at the end of 2008) due to the level of deficit financing incurred in 2010.

At the end of December 2010, total net assets of the banking sector were €2,943.7 million, a decrease of 2.7 per cent. compared to the end of 2009. As at 31 December 2010, liquid assets were €562.7 million, or 19.1 per cent. of total banking sector assets. Total bank deposits were €1,789.9 million at the end of 2010, a decrease of 1.9 per cent. compared to the end of 2009. Since the start of the global financial and economic crisis in 2008 and 2009, bank deposits showed a downward trend due to the impact of the crisis on household and corporate confidence in the banking sector, although from the middle of 2011 deposits started to flow back into the banking sector.

Montenegro's total industrial production grew by 9.3 per cent. in 2010, with quarrying and power production growing by approximately 11.3 per cent. and 22.1 per cent., respectively, compared to 2009. Metal processing remained generally flat in 2010, with production at the steel mill at Zeljezara (*Zeljezara Niksic a.d.*) (the "**Steel Mill**") generally remaining at the same level as in 2009. See "*Principal Sectors of the Economy — Industrial production*". However, the growth in other non-metals sectors, which accounted for more than 50 per cent. of overall industrial output in 2010, continued to show the increased diversification of this sector of the Montenegrin economy and the decreasing dependence on metal producers.

In the construction industry, even though there was a significant downturn during 2009 based on the value of completed projects, the overall level of activity at the end of 2009 was higher than at the end of 2007. Consequently, 2010 witnessed growth of 5.5 per cent., with particularly strong growth of 36.0 per cent. in the last quarter of 2010. The growth in the construction industry was an indicator of the start of the overall recovery in the economy. Growth in real estate, renting and associated activity was 8.5 per cent. in 2010 compared to 7.5 per cent. in 2009, evidencing the recovery of this and the construction sector in light of the fact that these sectors had been affected particularly severely during the crisis, with the construction sector declining by 19.2 per cent. in 2009 (albeit growing by 5.5 per cent. in 2010).

The performance of the transport sector varied across the different segments in 2010. Although passenger transport decreased further in 2010, railway cargo increased by almost 50 per cent., while airline transport grew by 26 per cent., in each case as compared to 2009, and mobile telecommunications also recorded significant growth. Overall, the transport sector recorded a decline of 2.2 per cent. between 2009 and 2010 principally as a result of the decline in passenger transport during that period.

The recovery in the Montenegrin economy, particularly in the second half of 2010, resulted in an increase in exports by 20.3 per cent. in 2010 as compared to 2009, while imports increased by 0.2 per cent. and

overall total foreign trade increased by 3.2 per cent. Notably, export of services increased by 9.9 per cent., fuelled by increased foreign demand, particularly by growth in tourism.

2011

In 2011, the Montenegrin economy continued to recover and recorded GDP growth of 3.2 per cent. in real terms. Tourism, retail trade and construction segments were the main contributors to GDP growth in 2011. The number of tourist arrivals and overnight stays increased by 8.7 per cent. and 10.2 per cent., respectively, in 2011. According to the MONSTAT data, retail trade generated a growth of 20.8 per cent. in constant prices in 2011 as compared to 2010. The Government believes that high growth rates recorded in retail trade in 2011 principally reflect the growth of tourism-related trade, a reduction in "grey economy" activities as a result of a growing share of large retail chains in overall retail trade, an increase in car sales and an increase in sales of petroleum products. According to MONSTAT, the construction sector recorded a growth in value of finished works of 10.7 per cent. in 2011.

Total industrial production in 2011 recorded a 10.3 per cent. decline principally due to a 32.7 per cent. decrease in electricity generation, which was mainly a result of a decline in hydro electricity generation due to extended periods of drought during the year and a record-high base in 2010. Manufacturing and mining and quarrying recorded a slight expansion. Annual growth of the processing industry was 6.8 per cent. in 2011, mainly due to an increase in prices of base metals, machinery and devices and wood products. According to MONSTAT, most modes of transport recorded a decline in 2011 as compared to 2010 as a result of a general decrease in economic activities.

Economic developments in 2012 and 2013

The Montenegrin GDP contracted by 2.5 per cent. in real terms in 2012, principally as a result of a challenging economic environment in the Euro zone which had an adverse impact on Montenegro, a sharp decline in the overall economic activity in Montenegro in the first quarter due to adverse weather conditions (which also resulted in stagnation and weak growth in the remainder of the year) as well as declines in industrial production (largely due to a decrease in production at KAP, see "*Principal Sectors of the Economy—Industrial production—Metals manufacturing—KAP*" for more information) and in budget expenditure and revenues from taxes on goods. These adverse developments were partially offset by growth in the tourism sector and retail trade.

The Montenegrin economy recorded GDP growth of 3.3 per cent. in 2013, which was in line with Government expectations. According to MONSTAT, in 2013, Montenegro was visited by 1.49 million tourists (3.6 per cent. more than in 2012), who made 9.41 million overnight stays (2.8 per cent. more than in 2012). In 2013, industrial production recorded a growth of 10.6 per cent. compared to the same period of 2012. Retail turnover in 2013 (at current prices) was 11.3 per cent. higher as compared to the same period of 2012. In 2013, Montenegro also saw growth in passenger transportation and freight by rail, and in passenger air transportation. Construction activity in 2013 was positive. The value of completed construction work in 2013 increased by 9.7 per cent. as compared to the same period of 2012, and effective hours of construction works increased by 31.5 per cent. in the same period. The value of new contracts for buildings in 2013 increased by 260.7 per cent. as compared to the same period for 2012, while the value of new contracts for other facilities increased by 233.1 per cent. in the same period.

Economic developments in 2014

Preliminary data shows that the Montenegrin economy recorded a GDP growth of 1.3 per cent. in the third quarter of 2014 as compared to the third quarter of 2013 and 2.0 per cent. in 2014 for the full year, which was in line with Government expectations. According to MONSTAT, preliminary data reflects that Montenegro was visited by 1.50 million tourists who made up 9.50 million overnight stays in 2014 for the full year, which, compared to 2013 represents increases of 0.6 per cent. and 0.9 per cent., respectively. In the first three quarters of 2014, industrial production recorded a contraction of 6.0 per cent. compared to the same period of 2013. This contraction was primarily due to a decrease in electricity production, which was largely caused by adverse weather. Retail turnover in the first three quarters of 2014 (at current prices) was 5.6 per cent. higher as compared to the same period of 2013. Construction activity in the first three quarters of 2014 was positive. The value of completed construction work in the first three quarters of 2014 increased by 12.2 per cent. as compared to the same period in 2013, and effective hours of construction works increased by 3.0 per cent. in the same period.

Gross Domestic Product

Montenegro's GDP contracted by 2.5 per cent. in 2012, grew by 3.3 per cent. in 2013, and based on preliminary data, grew by 1.3 per cent. in the third quarter of 2014 as compared to the third quarter of 2013 and by 2.0 per cent. in 2014 for the full year, in each case in real terms. The tourism and energy sectors have gained momentum recently and are expected by the Government to be among the main contributors to future economic growth.

The following table sets out GDP at current prices, nominal GDP growth rates, per capita GDP at current prices, GDP at constant 2000 prices and real GDP growth rates for the years 2009 to 2013. No such data is available for 2014 at the date of this Prospectus.

	2009	2010	2011	2012	2013
GDP at current prices (€ million).....	2,981.0	3,103.9	3,234.1	3,148.9	3,327.1
Nominal GDP growth rates (%).....	(3.4)	4.1	4.2	(2.6)	5.7
Real GDP growth rates (%).....	(5.7)	2.5	3.2	(2.5)	3.3
Per capita GDP at current prices (€).....	4,720	5,006	5,211	5,063	5,356
GDP at constant 2000 prices (€ million).....	2,911.1	3,054.4	3,204.1	3,151.7	3,254

Source: MONSTAT

The following table sets out the structure of GDP at current prices from the expenditure side for the years 2011, 2012 and 2013. No such data is available for 2014 as at the date of this Prospectus.

	2011		2012		2013	
	Size	% of GDP	Size	% of GDP	Size	% of GDP
	(€ thousand)	(%)	(€ thousand)	(%)	(€ thousand)	(%)
Final consumption expenditure.....	3,362,682	104.0	3,311,077	105.2	3,372,193	101.3
of which: Households final consumption expenditure (HFCE).....	2,667,366	82.5	2,631,969	83.6	2,712,002	81.5
Government final consumption expenditure (GFCF).....	695,316	21.5	679,108	21.6	660,191	19.8
Gross fixed capital formation (GFCF)	596,453	18.4	583,824	18.5	638,656	19.2
Changes in inventories.....	(8,091)	(0.3)	30,907	1.0	(8,378)	(0.3)
External balance of goods and services.....	(716,984)	(22.2)	(776,951)	(24.7)	(675,394)	(20.3)
of which: Exports of goods and services.....	1,382,597	42.8	1,389,430	44.1	1,390,130	41.8
Imports of goods and services	2,099,581	64.9	2,166,381	68.8	2,065,524	62.1
GDP	3,234,060	100.0	3,148,857	100.0	3,327,077	100.0

Source: MONSTAT

The Montenegrin economy is predominately a service-oriented economy. The service sector has been an important driver of growth and accounted for approximately 70 per cent. of GDP in 2013. The services sector increased its share of exports from 25.2 per cent. of GDP in 2008 to 31.7 per cent. of GDP in 2013. Based on gross value added data for 2013, the largest sub-sectors of the economy were wholesale and retail trade at 12.4 per cent., agriculture, forestry and fishing at 8.3 per cent. and real estate at 7.1 per cent. of the total gross value added. No such data is available for 2014 at the date of this Prospectus.

The Montenegrin economy has many small and "micro" businesses that have either very few, or, in most cases, no, alternative means of financing apart from the banking sector. During the global financial and economic crisis in 2008 and 2009, these businesses endured severe liquidity problems (even though the majority of businesses remained solvent and profitable). The difficulties with access to credit across the economy continued to affect growth in 2012, 2013 and 2014.

Principal Sectors of the Economy

In the past decade and, in particular, since Montenegro declared independence in 2006, the structure of its economy has changed drastically. Instead of industrial production, the main drivers of the economy have emerged from the service sector, principally tourism and related services, transport and retail sales and, to a lesser extent, construction and energy production. The number of small and medium-sized enterprises ("SMEs") increased rapidly. Despite the effects of the global financial and economic crisis in 2008 and 2009, the number of these SMEs has continued to grow.

The following tables set out the structure of GDP from the production side and the index of nominal growth and real growth rate for each component of GDP for the years 2012 and 2013. No such data is available for 2014 as at the date of this Prospectus.

	Gross value added, 2012, current prices	Gross value added 2013, current prices	Index of nominal growth ⁽¹⁾	Real growth rate ⁽²⁾
	(€ million)	(€ million)		(%)
Agriculture, forestry and fishing.....	232,012	269,419	115.0	16.1
Mining and quarrying.....	33,591	31,339	107.4	(6.7)
Manufacturing.....	135,462	141,541	101.1	4.5
Electricity, gas, steam and air conditioning supply.....	89,708	124,424	153.0	38.7
Water supply; sewerage, waste management and remediation activities.....	68,862	64,756	96.8	(6.0)
Construction.....	145,192	146,935	93.9	1.2
Wholesale and retail trade; repair of motor vehicles and motorcycles.....	386,333	402,563	100.5	4.2
Transportation and storage.....	130,287	136,338	96.5	4.6
Accommodation and food service activities.....	210,511	216,089	103.4	2.6
Information and communication.....	154,588	147,344	96.0	(4.7)
Financial and insurance activities.....	129,081	115,509	107.2	(10.5)
Real estate activities.....	226,273	229,418	100.4	1.4
Professional, scientific and technical activities.....	89,858	92,523	85.7	3.0
Administrative and support service activities.....	29,352	33,595	127.3	14.5
Public administration and defence; compulsory social security.....	246,306	250,001	100.1	1.5
Education.....	142,854	144,839	97.2	1.4
Human health and social work activities.....	124,377	125,882	103.6	1.2
Arts, entertainment and recreation.....	38,834	40,296	116.4	3.8
Other service activities; Activities of households as employers; undifferentiated goods-and services-producing activities of households for own use.....	22,133	23,065	109.1	4.2
Activities of extraterritorial organisations and bodies.....	—	—	—	—
Total.....	2,635,614	2,735,876	103.3	3.8
Taxes on products less subsidies on products.....	513,243	518,075	117.5	0.9
Gross domestic product (current prices)	3,148,857	3,253,951	105.7	3.3

Source: MONSTAT

Notes:

⁽¹⁾ Nominal growth rate = (GDP at current prices in current year / GDP at constant prices in current year) * 100

⁽²⁾ Real growth rate = (Gross value added at constant prices in the current year / gross value added at current prices in the previous year) * 100

Tourism

The tourism sector gained momentum in 2000 and generally continued to grow year-on-year through 2013, with annual increases in the number of tourist arrivals and overnight stays and in tourism generated revenues almost every year. Tourism comprised more than 60 per cent. of the total exports of services in 2013.

Based on the data collected by The World Travel and Tourism Council, the Government estimates that in 2013 approximately 20 per cent. of total Montenegrin GDP was generated by tourism directly and indirectly, with a total of approximately 30,500 employees engaged in the tourism industry. According to estimates from the Ministry of Sustainable Development and Tourism, total tourism revenues in 2013 were approximately €721 million, which is 3 per cent. higher than in 2012. Total tourism revenues for the eleven months ended 30 November 2014 were approximately €714.6 million (according to preliminary data from the Ministry of Sustainable Development and Tourism), which represents an increase of 2.3 per cent. compared to the same period in 2013.

The origins of tourists in 2013 were fairly diversified, with approximately 28.1 per cent. of overnight stays made by tourists arriving from Russia, 25.2 per cent. from Serbia, 7.5 per cent. from Bosnia and Herzegovina, 5.6 per cent. from Ukraine, 3.3 per cent. from Kosovo, 2.7 per cent. from Germany, 2.7 per cent. from Poland, 2.2 per cent. from France, and 23.2 per cent. from other countries. Because tourists arriving from Russia comprise the largest proportion of overnight stays, adverse economic or political

conditions in Russia may affect Montenegro's tourism industry. For example, the devaluation of the rouble and the sanctions imposed on Russia by the United States and the EU may result in a lower number of total visitors from Russia or a lower number of overnight stays made by tourists arriving from Russia.

In 2013, Montenegro was visited by 1.49 million tourists who made 9.41 million overnight stays, which, compared to 2012, represents increases of 3.7 per cent. and 2.9 per cent., respectively. The growth in tourist traffic in 2013 was influenced by a higher number of arrivals (4.8 per cent.) and overnight stays of foreign tourists (3.3 per cent.) as compared to 2012. In addition, in 2013, hotel capacity of 3- to 5-star hotels increased by 6.8 per cent. as compared to 2012, which reflects the continued focus on attracting tourists with above-average income levels.

According to MONSTAT, in 2014, Montenegro was visited by 1.50 million tourists who made up 9.50 million overnight stays, which, compared to 2013, represents increases of 0.6 per cent. and 0.9 per cent., respectively. The growth in tourism in 2014 was influenced by a higher number of arrivals and overnight stays of foreign tourists as compared to 2013.

The origins of tourists in the eleven months ended 30 November 2014 were diversified, with approximately 30.1 per cent of overnight stays made by tourists arriving from Russia, 24.0 per cent. from Serbia, 7.4 per cent. from Bosnia and Herzegovina, 5.8 per cent. from Ukraine, 2.9 per cent. from Kosovo, 2.7 per cent. from Poland, 2.4 per cent. from France, 2.1 per cent. from Germany and 22.6 per cent. from other countries.

Based on 2012, 2013 and preliminary 2014 data, approximately 97.2 per cent. in 2012, 97.0 per cent. in 2013 and 97.0 per cent. in the first eleven months of 2014 of the total number of overnight tourist stays were on the Montenegrin coast. However, the Government believes that there is also potential for increases in tourist numbers visiting the mountain area of the country (for skiing in winter months and biking, hiking and other outdoor activities during other parts of the year) and Lake Skadar, the largest lake in the Balkans. These efforts are also expected to partially counter-balance the seasonality of the tourism sector, as presently most of the tourism activities take place during the summer months. The Government is currently focused on infrastructure investment projects and marketing activities with a view to promote inland tourism.

The Government expects economic growth to continue and if it does, the Government also expects significant further private investments in the tourism sector (see "*Balance of Payments and Foreign Trade — Foreign Direct Investment*" for a description of major tourism projects that are currently underway), principally in a number of major developments on the coast. The Government's priorities for 2015-2020 to further develop the tourism sector are firstly, developing the infrastructure for tourism, for example by improving accessibility, increasing airport capacity, improving sewage and water supply utilities and developing high quality accommodation such as four and five star hotels. Secondly, the Government will prioritize promoting Montenegro as a unique and year-round tourist destination and raising awareness and soliciting more involvement from local municipalities. Challenges to further development of the tourism sector include a tight budget, unfulfilled contractual obligations such as hotels not being built and insufficient transport links to and within the country.

The Government recognises tourism as a very important sector of the economy and supports it through important infrastructure projects, such as coastline water supply and wastewater treatment projects, solid waste projects, and road infrastructure. All of these projects are co-financed with major international financial institutions such as the European Investment Bank (the "**EIB**"), the EBRD, the German Development Bank *Kreditanstalt für Wiederaufbau* ("**KfW**") and the World Bank. See "*Risk Factors—Montenegro depends on its tourism industry as a significant source of revenue and any deterioration in its tourism industry may adversely affect Montenegrin economy and Montenegro's ability to repay principal and make payments of interest on the Notes*".

Industrial production

In the past, industrial production contributed significantly to the overall GDP of Montenegro, comprising 16 per cent. of total GDP in 2004. In recent years, however, the share of industrial production in total GDP has, for the most part, been declining and amounted to 8.1 per cent. and 8.2 per cent. of total GDP in 2011 and 2012, respectively. In 2013 and 2014, industrial production grew slightly and amounted to 9.3 per cent. and 9.8 per cent. of total GDP (projected GDP for 2014), respectively.

As a result of adverse developments affecting KAP and the Steel Mill in 2009 as described further below, in 2009 Montenegro's total industrial output declined by over 30 per cent. Montenegro's industrial production grew by 9.3 per cent. in 2010, with quarrying and energy production growing by approximately 11.3 per cent. and 22.1 per cent., respectively, compared to 2009, which led to an increase in combined share for these two sectors in overall industrial production from 56 per cent. in 2009 to 62 per cent. in 2010. This was partially offset by a continued decline in the manufacturing sector, which contracted by 5.8 per cent. in 2010. Metal processing remained generally flat in 2010, with production at the Steel Mill generally remaining at the same level as in 2009. Metal processing declined from 2013 to 2014, falling from 19.1 thousand tonnes produced in 2013 to 13.8 thousand tonnes produced in 2014.

Total industrial production in 2011 recorded a 10.3 per cent. decline principally due to a 32.7 per cent. decrease in electricity generation, which was mainly a result of a decline in hydro electricity generation due to extended periods of drought during the year and a record-high base in 2010. Manufacturing and mining and quarrying recorded a slight expansion. Annual growth of the processing industry was 6.8 per cent. in 2011, mainly due to an increase in prices of base metals, machinery and devices and wood products.

Industrial production decreased by 7.1 per cent. in 2012. The mining and quarrying sector and the manufacturing sector recorded annual declines of 21.0 per cent. and 10.1 per cent., respectively. The processing industry recorded a 10.1 per cent. contraction in 2012, primarily due to a 45.7 per cent. decrease in metals manufacturing as a result of a decline in production of aluminium by KAP and steel by the Steel Mill and an 11.9 per cent. decline in manufacturing of beverages. However, the electricity, gas and heat supply sector grew by 100.5 per cent.

In 2013, industrial production increased by 10.6 per cent. as compared to 2012. The electricity, gas and steam supply sector recorded an increase of 38.7 per cent. in 2013 as compared to 2012. The growth was partially offset by declines in other sectors. The ore and stone extraction sector recorded a decrease of 1.4 per cent. in 2013 as compared to 2012. The manufacturing industry recorded a decline of 5 per cent. in 2013 as compared to 2012, principally due to the decline in base metals (37.3 per cent.), reflecting the decreases in production at KAP as discussed further below, wearing apparel (30.2 per cent.), fabricated metal products (26.9 per cent.) and wood and cork products (16.7 per cent.). No such data is available for 2014 at the date of this Prospectus.

In the ten months ended 31 October 2014, industrial production decreased by 11.0 per cent. as compared to the same period in 2013, primarily due to the decline in the production of electricity. The decline in the production of electricity is due to a high base from the previous year and a lengthy refurbishment of the Thermal Power Plant in Pljevlja. The electricity, gas and water supply sector recorded a decrease of 21.6 per cent. in the ten months ended 31 October 2014 as compared to the same period in 2013, the mining and quarrying sector recorded an increase of 8.5 per cent. in the same period and the manufacturing sector recorded a decrease of 3.8 per cent. in the same period.

Energy production

Energy generation accounted for approximately 44 per cent. of the country's total industrial production in 2013. Exports in the energy sector increased from approximately €38 million in 2012 to approximately €96 million in 2013, while imports decreased from approximately €106 million in 2012 to approximately €54 million in 2013. In the medium to long term, energy production (in particular, the production of renewable energy) is expected to be the largest source of future growth for the Montenegrin economy, with the Government estimating that over 75 per cent. of the country's potential hydro-power generating capacity currently remains untapped. As discussed below, the Government is currently working on a project for an underwater electricity transmission cable between Montenegro and Italy with an estimated total investment amount of €863 million and related infrastructure (the "**Underwater Cable Project**"). As electricity prices in Italy are generally higher than in Montenegro, the project would allow Montenegrin energy generation companies to export electricity to customers in Italy. Additionally, the project would allow Montenegro to act as a regional hub for energy, transporting electricity generated in other countries to customers in Italy. To some extent, the ability of Montenegro to generate revenue from the project is dependent on Montenegro's ability to increase Montenegrin power capacity through other energy projects. The partial privatisation of the national power company (Electric Power Company of Montenegro or "**EPCG**") took place in 2009, which raised €436.1 million. In July and August 2010, the Government also signed contracts with Fersa Energia Renovables, S.A. and Mitsubishi Heavy Industries Ltd., respectively, for the construction of windparks with the potential to produce a total of 96 megawatt-

hours of energy, which are expected to be completed by the end of 2015. In 2014, tenders for hydro electric plants were carried out and the first contract to purchase energy produced in small hydro power plants was signed. In 2014, six contracts for the construction of small hydropower plants were signed as a result of two tender processes. The total investment value of these contracts is €46.6 million. In 2015, 13 new small hydro power plants are expected to start operations, which will lead to total energy production of approximately 39 GWh. The foregoing projects are expected to be the main drivers of future growth of the energy production sector in Montenegro.

The Underwater Cable Project envisions (i) the construction by Terna S.p.A., a private Italian company, of a 415 kilometre undersea electricity transmission line, with a capacity of one giga-watt, between the coast of Montenegro and the coast of Italy, with an estimated investment amount of approximately €758 million to be financed by Terna, (ii) the development of a 400 kilowatt-hours electricity generation station and a transmission infrastructure from the north of Montenegro to the coast, with an estimated investment amount of approximately €105 million to be financed by the Montenegrin Electric Transmission System ("CGES"), a state-owned Montenegrin electricity transmission system operator (although with no contributions made by the Government to the project), and (iii) the construction of a 400 kilowatt-hours electricity transmission line from Montenegro to Serbia and/or Bosnia and Herzegovina to transport electricity between these countries, with an estimated investment amount of approximately €20 million from Montenegro to be financed by loan facilities. It is expected that the Underwater Cable Project will be completed by the end of 2016 and become operational by 2017. The Government is currently engaged in discussions in relation to land expropriation in connection with the project, while CGES is presently conducting tenders for potential providers of construction services and equipment for the electricity generation station and transmission infrastructure from the north of Montenegro to the coast. As part of the financing arrangements for its portion of the investment in the Underwater Cable Project, CGES entered into loan agreements in 2013 with the EBRD and KfW to finance the construction of the substation 400/110/35 kV station and the transmission line from the north of Montenegro to the Montenegrin coast.

The loan agreement between CGES and KfW for €25 million is guaranteed by the Government of Montenegro. The loan agreement between CGES and EBRD for €60 million is guaranteed by the Government of Montenegro in the amount of €20 million for each of 2014, 2015 and 2016. In the Budget Law for 2015, the Government planned a €40 million guarantee for the loan agreement between CGES and EBRD.

Construction of the Second Block of the Thermal Power Plant ("TPP") Pljevlja

On 31 October 2013, the Ministry of Economy conducted public bids for the implementation of the Project Second Block of the TPP Pljevlja (the "**TPP Project**").

The second block is expected to have power generation ranging from 220 to 300MW and will be located on the site of the existing unit of the TPP Pljevlja. The second block is expected to be built using modern technology and in line with the latest environmental requirements of the EU and Montenegro's environmental regulations. The TPP Project will be implemented by means of an inter-state agreement, whereby the bidder can secure certain financing through loans or finance a specific percentage of the TPP Project, or enter into a joint investment, or to be the industrial and financial partner of EPCG for the implementation of the TPP Project.

Nine companies submitted bids for the TPP Project and three companies have been shortlisted. A bidder is expected to be selected in September 2015 and the expected time for construction is 36 months from the signing of a construction contract.

After an analysis of the TPP Project, the working group will prepare and submit a detailed information and sustainability analysis to the Board of Directors of EPCG for its evaluation and approval. The Board of Directors of EPCG will define the final investment package to be submitted to the Government and its strategic partner company, A2A.

The Ministry of Economy is preparing the proposed information in cooperation with the Electric Power Industry of Montenegro (*Elektroprivredom Crne Gore*) and TPP Pljevlja. The cost of this project is expected to be approximately €250 million.

Wind farm Mozura

In 2010, the Government signed 20-year lease contracts for land in Mozura with the consortium of the Spanish company Fersa Energias Renovables S.A. and Montenegrin company Celebic, for the construction of a wind farm with the potential to produce a total of 46 mega-watts of energy. The Government has guaranteed to pay a price of not less than €95.99 / MWh for electricity from the wind farm in the first 12 years of operation. This price corresponds with the prices designated for energy produced from wind power in the official incentive tariff system in Montenegro. The annual lease payment for state land for the construction of the wind farm on the site Mozura amounts to €0.37 / m². The total value of the investment is approximately €65 million. On 15 December 2014, Celebic obtained the construction permit, allowing them to start with the construction of the project.

Wind farm Krnovo

In 2010, the Government signed 20 year lease contracts for land in Krnovo with a consortium of Japan's Mitsubishi Heavy Industries and Austria's Ivicom Consulting GmbH. In the first 12 years of operations, the purchase price of electricity produced by the wind farm is guaranteed by the Government to be at least €95.99 / MWh. Yearly lease of state land for the construction of the wind farm on the site amounts to €0.10 / m². An upgrade of the originally planned 50mw capacity to 72mw was approved by the state. In 2012, Akuo-IVICOM Consulting GmbH joined the consortium as the leading member. Due to a delay in expropriation of the land by the state, construction works were temporarily put on hold. On 30 January 2014, the Government adopted the decision on expropriation of land for Krnovo wind farm. Following the adoption of the decision and payment of the necessary funds by the consortiums, expropriation was completed and the construction permit was granted in May 2014. The Government adopted the text of the Direct Contract, which sets out certain terms, such as allowing the introduction of a replacement company, which will provide assistance for the development and financing of the project. Construction of the wind power plant is expected to begin by May 2015. The total value of the investment stands at approximately € 120 million.

Exploration and Production of Oil and Gas from the Adriatic Sea

In early 2014, the Ministry of Economy published a public invitation for submitting bids for the award of a hydrocarbons production concession contract in the Adriatic Sea by Montenegro. Prior to the close of the tender process, the Government adopted regulations to govern the production of hydrocarbons, including the Law on Exploration and Production of Hydrocarbons (OGM no. 41/10, 62/13), the Law on Hydrocarbons Tax (OGM no 31/14), Decree on the Manner of Calculation and Payment of the Fee for Production of Oil and GAS (OGM 13/14) and other decrees and rulebooks. Preliminary measurements by the IREET Energy, Ecology and Technology Research Institute in Slovenia show that there are possible reserves of seven billion barrels of oil and 425 billion cubic metres of gas.

The public invitation for bids was closed on 15 May 2014 and three groups of companies submitted bids:

- Marathon Oil Corporation, United States and OMV, Austria;
- Eni S.p.A., Italy and Novatek, Russia; and
- Energean Oil and Gas, Greece and Mediterranean Oil and Gas, United Kingdom.

The bid evaluation process and negotiation with the groups are currently in progress. It is expected that the hydrocarbons production concession contract will be awarded by the first half of 2015. Once the Ministry of Economy has completed negotiations with the bidders, the Parliament of Montenegro will schedule a vote and make the final decision on which group shall be awarded the contract.

On 30 January 2014, the Government adopted model forms of the production concession contract, accounting agreement and joint operating agreement, to be submitted. The Government adopted a Decree concerning the manner of calculation and payment of fee for the oil and gas produced as a result of the project. The calculation will be used to calculate two types of fees: the fee for the production (royalty) and the fee for the area covered by a concession contract. The Ministry of Economy is in the process of publishing a rulebook defining a hydrocarbons development and production programme, and the rules regarding the drilling of wells and the construction of facilities.

Trans-Adriatic Pipeline (TAP) Gas Pipeline

In June 2013, the Shah Deniz consortium selected the TAP gas pipeline as a route for transporting gas to Europe and in December 2013 a final investment decision for this project was made in Baku, Azerbaijan. Officials from Azerbaijan, Albania, Bosnia and Herzegovina, Croatia and Montenegro signed a Memorandum of Understanding covering cooperation on the project for the construction of the pipeline.

The first draft of a feasibility study was completed by the consulting firm COWI and the final version agreed in February 2014. Following a requirement of the study, Montenegro has accepted in principle an option for the TAP route. The final route will be agreed in line with legislative procedure, following consultation with the future investors. The Ministry of Economy has submitted the draft feasibility study, with supporting documents, as well as a draft social and environmental impact assessment to competent state-level institutions and local governments for their opinion.

The feasibility study contains business model proposals for the project. The first business model proposed is a single project to establish an SPV (special purpose vehicle) initially composed of the participating states as shareholders. The SPV would then secure financing to implement the project by attracting investors for the project. The second business model is for separate projects for the TAP sections, with each section treated as a separate project (e.g. the section through Montenegro). The separate sections would then secure financing separately.

As part of the 10th Western Balkan Investment Framework, Montenegro was awarded a grant of €550 thousand from the Western Balkans Investment Framework, which includes contributions from the Council of Europe Development Bank, the EBRD, the EIB, KfW and the World Bank, for the development of the Government's projects in the gas sector.

Ionian-Adriatic Pipeline (IAP)

The Ionian-Adriatic Pipeline ("**IAP**") Project is expected to connect the existing and planned gas transmission systems of Croatia with the TAP gas pipeline. The project aims to establish a new supply route for natural gas from the Middle East and Caspian Sea region, northwards along the Adriatic coast. The construction of this pipeline would allow for Albania, Montenegro, southern Croatia and Bosnia and Herzegovina to begin producing and delivering gas and would provide a diversified and reliable natural gas supply. The total length of the IAP is 511 kilometres, with an estimated annual level of 5 billion cubic metres.

The final feasibility study for the IAP Project was presented in April 2014 in Albania. The state participants (Albania, Montenegro, Bosnia and Herzegovina and Croatia) will make the final decision on the realisation of the IAP Project and will decide on a business model for the development of the project. It is estimated that the total investment required by Montenegro to construct Montenegro's section of the pipeline is approximately €119 million.

Metals manufacturing

Metals manufacturing is the second largest component of Montenegro's total industrial production and principally comprises the aluminium producer KAP and the steel producer Steel Mill.

KAP

In December 2005, KAP was privatised, with 65.4 per cent. of its shares being sold to Salomon Enterprises Limited (now called Central European Aluminium Company ("**CEAC**")). CEAC is wholly owned by the EN+ Group, a Russian company which focuses on businesses that extract raw materials for energy production, as well as on the production and sales of electric energy and high energy consuming metals.

KAP's aluminium refinery and an aluminium plant (which consists of a carbon plant, smelter, a casthouse and secondary smelter) are situated on the outskirts of Podgorica close to the Podgorica airport and connected by railway to the bauxite mine near Niksic and the Port of Bar where KAP has its own dedicated installations. The refinery produces aluminium by extracting it from the bauxite shipped from the Niksic bauxite mine. It has a capacity of 280,000 metric tonnes per a year and fully supplies the aluminium plant. The smelter consists of two potlines which are capable of producing 120,000 metric tonnes of molten aluminium per year. The casthouse casts molten aluminium into two products: standard

ingots, which are re-melted for alloying in foundry plants, and T-ingots, which are cast and sized according to customer requirements and range in quality. The secondary smelter recovers scrap aluminium and dross from the casthouse and potlines.

During 2008, KAP was affected by the worldwide decline in aluminium prices and high electricity costs, which led to a sharp decline in production. In recent years, KAP's trade union has also staged strikes demanding, among other things, increased severance payments. After debt rescheduling and layoffs in 2009, KAP increased its production from 60,000 tonnes in 2009 to 81,800 tonnes in 2010. The agreement signed between the Government and KAP in connection with the restructuring (as described below) contemplated further increases in production in 2011 and 2012. However, suppressed global aluminium prices in 2012 and 2013 and difficulties relating to electricity procurement by the plant resulted in declines in aluminium production during this period. Therefore, KAP was not able to achieve the contemplated increases in production, and in turn KAP was unable to meet some of its financial obligations, which are currently being restructured as described below.

KAP has been the subject of bankruptcy proceedings before the Commercial Court in Podgorica since 8 July 2013. The period of time for submitting the company restructuring plan passed without KAP making such a submission and the Commercial Court subsequently declared KAP bankrupt.

Following this decision the bankruptcy administrator assessed the suitability of the sale of KAP as a legal entity and also of the sale of all KAP's assets as against the sale of assets individually, in accordance with the Law on Bankruptcy. The bankruptcy administrator made a decision to issue a public announcement on the sale of the assets of KAP. Four offers were received from the companies Uniprom DOO Nikšić ("Uniprom"), Politropus Alternative DOO Tivat, Getsales Ltd London and Alemani Trade DOO Beograd. The bankruptcy administrator made a decision to accept the offer from Politropus Alternative DOO Tivat for the purchase of some of KAP's assets (namely, the so-called "red mud ponds"; red mud is a waste product of alumina production) and to open a new call for the sale of KAP's other assets (principally relating to smelting operations). One offer was received for the second public call for written offers for the purchase of the remaining KAP assets, submitted by the company Uniprom. The bankruptcy administrator made a decision to accept the offer from Uniprom on 28 February 2014 and a sales contract was signed on 10 June 2014. However, the former owner of KAP, the Central European Aluminium Company ("CEAC") initiated legal proceedings shortly thereafter. The bankruptcy administrator determined that it was in the best interest of KAP to maintain its production process. To prevent further reduction of the value of KAP, and thus to protect the interests of other creditors of KAP, the bankruptcy administrator carried out the sales contract and signed a business and technical cooperation agreement with Uniprom.

Uniprom has paid €4 million under the sales contract and must pay the remaining €24 million before a judgment is rendered in the legal proceedings in Nicosia and before the Commercial Court in Podgorica or within six months, whichever event occurs earlier.

KAP currently owes, among other things, approximately €13 million to the State for unpaid taxes and contributions and approximately €45 million to EPCG for outstanding electricity bills.

Going forward, it is intended that the Government will not provide direct subsidies to KAP (whether, in the form of payments from the general budget to KAP, issuance of Government guarantees in favour of KAP or otherwise).

Steel Mill

In November 2006, the Steel Mill was privatised, with 66.7 per cent. of its shares being sold to MN Specialty Steels Limited ("MN Specialty Steel") for €5.2 million and a pledge to invest a further €118 million in the plant within five years. In February 2008, MN Specialty Steel transferred its shares to MNSS B.V.

Similarly to KAP, the Steel Mill was also adversely affected by the global financial and economic crisis in 2008 and 2009, with production being completely suspended in October 2009. The plant resumed production in 2010 but at relatively low volumes. In addition, during late 2010 and early 2011, production was affected by the workforce striking as a result of non-payment of wages. The financial obligations and operations of the Steel Mill were subsequently restructured as described below.

Restructuring of the indebtedness of KAP and the Steel Mill

The Government has provided guarantees in connection with the debt restructuring and redundancy programmes at KAP and the Steel Mill. In the past, the Government also provided power consumption subsidies to KAP but stopped providing such subsidies in April 2012. The guarantees for KAP are in respect of a €49.7 million loan from OTP Bank and a €22 million loan from Deutsche Bank AG, London Branch ("**DB**"), each drawn in 2010. In addition, in 2010 the Government issued a guarantee in the amount of €60 million in respect of a financial arrangement between KAP and VTB Bank relating to the restructuring of an existing loan by VTB drawn in 2007. The guarantee for the Steel Mill, also given in 2010, is in respect of a €26.3 million loan from Credit Suisse. The total amount of the guarantees issued for the benefit of KAP and the Steel Mill amounted to approximately 6 per cent. of Montenegrin GDP in the Budget Law for 2010. These guarantees were intended to improve the prospects of these two metal producers.

KAP breached certain conditions under its loan agreement with DB, which resulted in an event of default under the loan being called by DB and repayment of the loan being accelerated. As KAP was unable to repay the loan, DB called upon the Government guarantee, following which the Government repaid the loan in full in April 2012.

OTP Bank and VTB Bank accelerated the required repayment of their respective loans to KAP upon the commencement of bankruptcy proceedings against KAP in July 2013. As KAP was unable to fulfil its repayment obligations, OTP Bank and VTB Bank called upon the respective Government guarantees. The Government subsequently made payments under the guarantees as follows: €60 million to VTB Bank in July 2013 and €42.5 million to OTP Bank in August 2013. Following these payments, the Government has fulfilled all of its payment obligations under the guarantees provided in respect of KAP.

In 2011, the Government guarantee provided in connection with the loan issued to the Steel Mill by Credit Suisse was called after Credit Suisse accelerated payment of the loan following a covenant breach and the Steel Mill was unable to repay the loan. The Government repaid the loan in full in 2011. As steel production at the Steel Mill continued to decline, in 2012 the Steel Mill went into bankruptcy procedures and all of its assets were sold to the Turkish TOSYALI Group for €15 million. TOSYALI Group agreed to invest €36.7 million by the end of 2016 in reconstruction of the Steel Mill in order to increase production, of which €1 million was invested in 2012, €8 million in total was invested in 2013 and 2014 and the remaining €27.7 million is expected to be invested in 2015 and 2016. The Steel Mill currently employs 315 people and is expected to continue production in 2015.

Steel Mill litigation

In November 2012, MNSS B.V. (the former owner of the Steel Mill) initiated arbitration proceedings in the International Centre for Settlement of Investment Disputes (the "**ICSID**") against the Government. The plaintiff seeks to recover its investments made in the Steel Mill during 2008-2011. Some of the investments were guaranteed and subsequently repaid by the Government, and the plaintiff seeks to recover certain remaining investments in the aggregate amount of approximately €100 million. The first hearing took place on 17 May 2013, at which the Tribunal issued an order concerning certain procedural matters. The parties have since exchanged two rounds of submissions and completed the document production procedure. The last submission by the claimants must be filed by 20 February 2015, and is expected shortly. The hearing on the merits in this case is expected to be held beginning 1 June 2015. The Government believes that the claim has no merit and intends to defend its position vigorously.

KAP litigation

In 2013, following the bankruptcy of KAP, CEAC initiated arbitration proceedings against the Government with The United Nations Commission on International Trade Law (UNCITRAL) in an amount of approximately €560 million. The Arbitral Tribunal has been constituted and the Government's statement of defence and counterclaim was submitted on 30 January 2015. This will be followed by the exchange of a second round of submissions by the parties, due on 30 April 2015 for the plaintiffs and 30 July 2015 for the Government. The hearing before the Arbitral Tribunal is scheduled to commence on 7 December 2015.

In March 2014, a claim made by CEAC was also registered before ICSID against the Government. CEAC generally alleges that the bankruptcy administrator took certain actions that resulted in the overall

decrease of the value of the bankruptcy estate to the detriment of CEAC. The Arbitral Tribunal was constituted on 14 July 2014 and, in accordance with the ICSID Rules of Arbitration, the Government raised preliminary objections to the conduct of the proceedings on 12 August 2014. Going forward, the Arbitral Tribunal is expected to render an order on the procedural calendar regarding Montenegro's jurisdictional objection. The Government believes that these claims have no merit and intends to defend its position vigorously.

Construction

Extensive capital budget investments by both central and municipal governments (see "*Public Finance*"), together with Public Private Partnership ("**PPP**") projects in road infrastructure generally offset decreases in private sector investments in 2009 and 2010.

The value of completed construction works in 2012 was 13.2 per cent. lower than in 2011, while the total effective work hours on construction works in 2012 were 9.2 per cent. lower than in 2011. The value of new contracts for buildings in 2012 declined by 13.7 per cent. as compared to 2011. The value of new contracts on other constructions in 2012 decreased by 50.6 per cent. as compared to 2011. Other constructions principally comprise constructions other than buildings, such as bridges, roads, railways and similar infrastructure objects. The 50.6 per cent. decline in 2012 as compared to 2011 was principally due to a decrease in the construction of such new infrastructure projects due to a general weakening of economic activity in that year and limited availability of public finances to provide Government support for such projects.

The value of completed construction works, the total effective work hours on construction works, the value of new contracts for buildings and the value of new contracts on other constructions increased by 9.7 per cent., 31.5 per cent., 216.7 per cent. and 197.3 per cent., respectively, in 2013 as compared to 2012. These substantial increases are a reflection of the low level of new constructions that took place in 2012.

The value of completed construction works in the third quarter of 2014 decreased by 5.5 per cent. as compared to the third quarter of 2013, but represents a 17.3 per cent. increase as compared with the second quarter of 2014. Total effective work hours on construction works in the third quarter of 2014 decreased by 0.3 per cent. as compared with the third quarter of 2013, but represents a 0.2 per cent. increase as compared with the second quarter of 2014. In the second quarter of 2014, 239 building permits were issued, which represents a 0.4 per cent. and a 5.3 per cent. increase as compared with the second quarter of 2013 and the first quarter of 2014, respectively. Of the 239 building permits issued, 184 were issued to natural persons while 55 were issued to legal persons. The total number of residential units for which building permits were issued in the second quarter of 2014 decreased by 34.5 per cent. and 30.1 per cent. as compared with the second quarter of 2013 and the first quarter of 2014, respectively.

Bar-Belgrade Motorway

In 2015, the Government expects to commence the construction of its section of a major PPP motorway between Bar and Belgrade, connecting the Adriatic coast of Montenegro, through the capital Podgorica, with the Serbian border and the Pan-European Highway Corridor 11 (a major European motorway). Currently, this route has a two-lane road, with some parts of it being considered potentially unsafe. The new motorway is expected to not only be much safer than the existing route but also have much higher pass-through capacity and enable faster transportation of people and goods, all of which is expected to result in significant economic and other benefits. As a result, the motorway project is seen as a strategic project by the Government and one of the elements of the country's integration strategy for accession to the EU. Other expected benefits of the motorway project are:

- shortening the overall travel time through the country;
- enabling better economic integration of the southern (coastal area and the capital) and northern parts of the country, which would allow for easier labour force movement and the development of winter tourism resorts in the north, thus positioning Montenegro as a full-year tourist destination in line with the Government's tourism strategy;

- increasing the number of tourists visiting Montenegro, by offering an adequate alternative to travelling via plane (approximately 30 per cent. of tourists come from the countries that were part of the former Yugoslavia);
- increasing the turnover of the Port of Bar by improving its connection to Corridor 11, which will allow for increased exports from the landlocked countries in the region (such as Serbia, Montenegro's largest trading partner). The Port of Bar currently handles only 2 million tons of freight per year, and its capacity is 4.5 million tons per year;
- facilitating access to regional market and decreased direct purchase costs, improving the business environment in Montenegro; and
- engagement of local construction companies, equipment and materials providers, and labour in the construction process, which will have further positive effects on the economy.

The total length of the motorway is expected to be 170 kilometres, with the priority section being Smokovac – Matasevo, which is expected to be 41 kilometres in length and covers the area of approximately 350 square kilometres.

Based on traffic forecasts by the Ministry of Transport and macro projections of the Ministry of Finance, total toll revenue and other commercial revenues are projected to be €20.5 million in 2019, rising to €31.3 million in 2024 and reaching €44 million in 2030. Although the financial net present value (NPV) of the project is expected to be negative (toll payments will not be enough to service debt payments relating to the project and the Government will need to subsidise debt repayments by €32 million per year), economic NPV is expected to be positive when taking into account improved road safety and economic benefits described above.

In July 2013, the Government selected the Chinese companies China Communications Construction Company International (CCCC) and the China Road and Bridge Corporation (CRBC) as the winning bidders for the construction of the Smokovac – Matasevo section of the motorway. Their bid for the construction of this section was €809 million, and the construction is expected to take four years during 2015-2018. CCCC and CRBC are expected to carry out 70 per cent. of the total construction works, with the remaining 30 per cent. reserved for domestic construction companies. It is planned that of this amount, 85 per cent. will be financed by the loan from the Chinese EXIM Bank to the State of Montenegro and 15 per cent. will be provided by the State of Montenegro through its capital budget (with approximately €25 million to €30 million paid in each year of construction). Once the construction is completed, the Government plans to introduce a road toll fee concession and different concession models are currently being discussed.

In February 2014, Montenegro's Transport Minister Ivan Brajovic and representatives of CRBC signed a framework agreement and an agreement on the project design, construction, and procurement and installation of equipment and materials for the construction of the Smokovac – Matasevo section. The signing of the agreement was one of the conditions precedent for starting negotiations with the Chinese EXIM Bank regarding project financing. In 2014, the Government and the Chinese EXIM Bank signed a Preferential Buyer Credit Loan Agreement in the amount of \$943,991,500, which represents 85 per cent. of the total financing required for the project. The loan has a 6-year grace period, 14-year repayment period and a fixed interest rate of 2 per cent. per annum. The loan is denominated in US dollars. Although the loan does not include a fixed US dollar/euro exchange rate, the construction agreement between the CRBC and the Ministry of Transport and Maritime includes a fixed US dollar/euro exchange rate. In 2015, the Government expects to draw down approximately \$190 million from the loan. It is expected that in the longer term approximately half of the project expenditure will be covered from road toll fee revenues.

Moraca Hydro Power Plant (HPP Moraca)

On 18 February 2010, the Government adopted and submitted for a public hearing a draft Detailed Spatial Plan and a draft Strategic Environmental Impact Assessment designed by Norwegian consulting company COWI regarding multipurpose reservoirs on the Moraca River. The two documents were prepared to evaluate the construction of four hydroelectric power plants, which would be expected to have a total installed capacity of 238.4 MW and an average annual power generation of 616 GWh.

Following the public hearing, amendments were made to the drafts of both documents. These amendments would result in a lesser impact on the environment and cultural heritage, with a trade-off of lower energy output. A study for biodiversity and conservation is currently in progress.

The tender for the construction of HPP Moraca was declared unsuccessful because the interested companies that purchased the tender documents did not submit their final bids.

Transportation and Communications

The number of road passengers and intra-city passengers declined by 8.2 per cent. and 12.5 per cent., respectively, in 2012 as compared to 2011, while the number of railway passengers and air passengers grew by 12.9 per cent. and 7.9 per cent., respectively. Railway, road, air and maritime cargo transportation volumes declined by 35.0 per cent., 68.1 per cent., 28.7 per cent. and 61.1 per cent., respectively, in 2012 as compared to 2011, reflecting the overall decline in economic activity in Montenegro in 2012. The number of conversation minutes in fixed telephony declined by 3.6 per cent. in 2012 as compared to 2011, while mobile telephony recorded an increase of 9.3 per cent.

The number of railway passengers increased by 18.1 per cent. in 2013 as compared to 2012, while the number of highway passengers grew by 8.6 per cent. and intra-city passengers by 9.7 per cent. The average number of air passengers during 2013 was 14.1 per cent. higher than in 2012. Railway and road cargo transportation volumes increased by 53.6 per cent. and 71.9 per cent., respectively, in 2013 as compared to 2012. Maritime cargo transportation volumes declined by 53.0 per cent. in 2013 as compared to 2012. The average air cargo transporting volume during the 2013 was 0.3 per cent. higher than in 2012. The number of conversation minutes in fixed telephony and mobile telephony recorded a decrease of 11.3 per cent. and an increase of 0.9 per cent., respectively, in 2013 as compared to 2012.

The number of railway passengers increased by 31.4 per cent. in the first three quarters of 2014 as compared to the same period in 2013. The number of passengers whose journey begins or terminates at the airport in the third quarter of 2014 decreased by 5.2 per cent., as compared with the third quarter of 2013. The number of passengers who used rail transport in the third quarter of 2014 increased by 10.4 per cent., as compared with the third quarter of 2013.

Goods transported via railways in the third quarter of 2014 decreased by 22.3 per cent., as compared with the third quarter of 2013. Goods transported by sea in the third quarter of 2014 decreased by 10.2 per cent., as compared with the third quarter of 2014.

The number of passengers who used sea transport in the third quarter of 2014 increased by 1.8 per cent., as compared with the third quarter of 2013. The number of conversation minutes in fixed telephony recorded a decrease of 25.7 per cent. in the third quarter of 2014 as compared with the third quarter of 2013. The number of conversation minutes in mobile telecommunication in the third quarter of 2014 increased by 12.6 per cent., as compared with the third quarter of 2013.

The privatisation process for Montecargo (the state railway cargo operator), Montenegro Airlines and the Port of Bar are ongoing and, together with significant planned investments in the country's road and railway infrastructure and the motorway project from Bar to Belgrade (running from the Montenegrin coast to the Serbian border) discussed above, are expected to contribute to future growth in the transportation sector. See "*Bar-Belgrade Highway*" above for more information. According to the Privatisation Plan for 2014, the preparation and implementation of public tenders for Montenegro Airlines and Montecargo are expected to continue. Additionally, the process of selecting investors for a public-private partnership model for the Post Office of Montenegro is expected to occur in 2015. Further steps towards privatisation and public-private partnerships in the tourism sector are also expected in 2015. The Privatisation Plan for 2015 had not yet been adopted as at the date of this Prospectus.

Agriculture

Despite adverse weather conditions (mainly droughts) continuing from 2010 into 2011, agricultural production grew by 1.0 per cent. in 2011 as compared to 2010, principally due the use of more advanced irrigation and other farming techniques and new technologies as well as higher incentives offered to farmers. However, adverse weather conditions (mainly heavy snow) at the beginning of 2012 had a negative impact on spring sowing, and the agriculture sector contracted by approximately 10.5 per cent. in 2012. Total incentives (which principally comprise Government subsidies) for the agricultural sector

were €20.5 million in 2012, €20.3 million in 2013, €20.4 million in 2014 and are expected to be €22.9 million in 2015. In 2015, the Government introduced certain tax relief measures to target economic growth in the agriculture sector. For example, the Government offered relief from the obligation to pay certain public revenues during construction phases in the tourism, agriculture and energy sectors and introduced a refund for the full excise duty value of mineral oils used in agricultural and forestry machines.

There were a number of positive developments in the agricultural industry in 2014. For example, milk production increased by approximately 1.5 per cent. in comparison to 2013. In 2014, the area utilised for vineyards grew by 25 hectares and the area utilised for fruit production grew by 100 hectares. Employment in the agriculture sector increased in 2014, with approximately 700 additional people employed. Relationships with foreign partners were positive, especially with the European Commission and the World Bank. In 2014, a significant amount of financial assistance was provided for farmers through the Montenegro Institutional Development and Agriculture Strengthening ("**MIDAS**") project carried out in cooperation with the World Bank, covering 70 contracts with farmers worth over €1.3 million. During 2014, 197 projects have been funded with a total amount of over €4.5 million through the MIDAS project. The MIDAS project is expected to end in June 2015.

At the end of 2014, the Ministry of Agriculture and Rural Development ("**MARD**") announced the planned implementation of a grant scheme, based on the core rules of the European Union Instrument of pre-accession Assistance for Rural Development ("**IPARD**"), which will be financed through the EU/IPA Agriculture and Rural Development Institution Building Project for Montenegro. The grant scheme is implemented by MARD and the World Bank and is expected to be launched in 2016. The budget of the grant scheme is €4.1 million, which combined with the MIDAS project will result in more than €8 million of investments in the Montenegrin agricultural sector.

In 2014, bilateral meetings were organised with the ministers of agriculture from, among others, Germany, the United Arab Emirates, Poland, Hungary, Switzerland, Slovenia, Estonia, Lithuania, Austria, Croatia, Cyprus and Israel. Various international memoranda of cooperation in agriculture were signed.

In the area of rural development, over 70 projects that seek to increase the quality of life of citizens were ongoing in 2014, including the completion of 17 aqueducts and four cappings that bring water to more than 900 households. Construction of the first border crossing for the inspection of food of animal and plant origin began in 2013 with an estimated budget of €450,000 and continued in 2014 at a cost of €160,000. The border crossing is expected to be completed in June 2015. In addition, several measures relating to the promotion of food safety and animal health were undertaken in 2014. In the area of veterinary policy, the Ministry of Agriculture and Rural Development completed a vaccination programme against rabies and implemented a set of preventive measures to protect the health of livestock.

The "Strengthening Rural Development Program under IPARD in Montenegro" officially began in May 2013. This project is funded by the EU and is coordinated by a consortium of countries including the Netherlands, Lithuania and Estonia. Direct users of the project are the Ministry of Agriculture and Rural Development and the Ministry of Finance of Montenegro. The project is budgeted at €1 million and will last for 24 months. Its focus is to increase the competitiveness of Montenegro's agriculture sector and support Montenegrin rural development to help it become closer to EU standards.

The agricultural sector includes, among other things, the food processing sector and the beverages sector (including wine and beer production). The food processing sector includes, among other things, processing plants, flour mills, dairies, bakeries, juice factories and fruit-processing factories. State controlled wine producer, Plantaze, produces and distributes wine, table grapes, grape brandies and peaches. Plantaze is also active in fish farming, catering and the retail trade. Plantaze has approximately 2,310 hectares of vines and wine cellars, giving it the largest single vineyard site in Europe with an annual production of approximately 22 million kilos of grapes and annual sales of approximately 17 million bottles of wine. Approximately 60 per cent. of its vineyards produce its most well-known wine branded "Vranac". Wine is exported to more than 25 countries, including Russia, China, Australia, USA and Canada, as well as countries in South East Europe. Plantaze also has a 6,000 square metre fish pond on the Mareza river where it produces and sells around 100 tonnes of Californian trout annually and also breeds fish for the stocking of lakes and rivers. For the year ended 31 December 2012, Plantaze's total revenue was €37.4 million. In 2013, Plantaze's total revenue decreased to €33.6 million and net profit was €1.96 million. Plantaze's total revenue in 2014 is not available at the date of this Prospectus.

Inflation

The following table sets out the annual inflation rate for 2010 to 2014 based on the consumer price index.

	2010	2011	2012	2013	2014
			(%)		
Inflation (annual 12-month average rate of change).....	0.5	3.5	4.1	2.2	(0.7)

Source: MONSTAT

For the purposes of its forecast budget revenues and expenditures for the years 2014-2016, the Government has assumed an inflation rate of 2.5 – 2.9 per cent. per annum. See "*Public Finance – Budget Law 2014*".

Annual inflation, as measured by the consumer price index, increased from 3.5 per cent. in 2011 to 4.1 per cent. in 2012 principally due to (i) Government increases in electricity prices by 6.1 per cent. in January 2012, 3.1 per cent. in July 2012 and 6.5 per cent. in August 2012, (ii) a fuel price increase as a result of increases in global oil prices, (iii) food prices increase due to crops shortage caused by heavy snow at the beginning of the year and record-long drought period afterwards, and (iv) increases in fees and excise taxes on tobacco, alcoholic beverages, carbonated beverages and coffee.

In 2013, the annual inflation rate as measured by the consumer price index was 2.2 per cent., which was principally due to increases in prices of food and non-alcoholic beverages (4.0 per cent.); housing, water, electricity, gas and other fuels (3.4 per cent.); and clothing and footwear (2.0 per cent.); partially offset by decreases in prices of transportation services (1.7 per cent.) and furniture and other household items (1.6 per cent.) through November 2014.

As of 30 November 2014, the annual inflation rate as measured by the consumer price index was negative 0.1 per cent., which was principally due to decreases in prices of miscellaneous goods and services (0.7 per cent.); restaurants and hotels (0.6 per cent.), transport (0.4 per cent.), clothing and footwear (0.2 per cent.), food and non-alcoholic beverages (0.1 per cent.), partially offset by increases in prices of health services (1.2 per cent.), furnishings, household equipment and routine household maintenance (0.2 per cent.), recreation and culture (0.2 per cent.) and alcoholic beverages and tobacco (0.1 per cent.) through November 2014.

Wages

The following tables set out the average monthly gross and net wages in different sectors for the years 2012, 2013 and 2014 (as of November 2014).

	Average Monthly Gross Wages		
	2012	2013	2014 ⁽¹⁾
		(€)	
Total	727	726	723
Agriculture, forestry and fishing.....	894	734	674
Mining and quarrying.....	1,054	1,035	913
Manufacturing.....	773	697	663
Electricity, gas, steam and air conditioning supply.....	1,311	1,250	1280
Water supply, sewerage, waste management and remediation activities.....	692	692	662
Construction.....	594	703	645
Wholesale and retail trade, repair of motor vehicles and motor cycles.....	494	495	508
Transportation and storage.....	835	763	800
Accommodation and food service activities.....	570	572	560
Information and communication.....	1,125	1,091	1013
Financial and insurance activities.....	1,295	1,345	1324
Real estate activities.....	1,179	1,016	923
Professional, scientific and technical activities.....	641	668	637
Administrative and support service activities.....	523	506	527
Public administration and defence, compulsory social security.....	734	742	758
Education.....	674	683	685
Human health and social work activities.....	723	725	723
Arts, entertainment and recreation.....	567	578	556
Other service activities.....	679	709	630

Source: MONSTAT

Notes:

⁽¹⁾ As of November 2014.

	Average Monthly Net Wages		
	2012	2013	2014 ⁽¹⁾
	(€)		
Total	487	479	477
Agriculture, forestry and fishing.....	599	499	459
Mining and quarrying.....	707	673	594
Manufacturing.....	519	459	437
Electricity, gas, steam and air conditioning supply.....	878	807	824
Water supply, sewerage, waste management and remediation activities.....	464	460	440
Construction.....	398	464	426
Wholesale and retail trade, repair of motor vehicles and motor cycles.....	331	329	337
Transportation and storage.....	560	503	525
Accommodation and food service activities.....	383	381	376
Information and communication.....	755	709	647
Financial and insurance activities.....	868	869	854
Real estate activities.....	790	664	600
Professional, scientific and technical activities.....	430	440	420
Administrative and support service activities.....	351	337	350
Public administration and defence, compulsory social security.....	492	491	501
Education.....	451	454	456
Human health and social work activities.....	485	483	482
Arts, entertainment and recreation.....	380	382	368
Other service activities.....	455	465	414

Source: MONSTAT

Notes:

⁽¹⁾ As of November 2014.

The Government imposed strict controls on the number of newly-hired public sector employees between 2010 and 2014. This factor, along with public wage reductions and the elimination of various bonuses for public sector employees, is expected to make private sector employment more attractive and eventually to lead to increased overall productivity in the economy. Given that the growth in wages in the public sector prior to 2010 jeopardised, to a certain extent, reforms in the labour market aimed at making private sector employment more attractive and even threatened to restrict the ability of the private sector to employ workers, the Government's decision to reduce public sector wages acted not only as a fiscal measure but also as a structural economic reform.

In 2012, the average gross monthly wage was €727, while the average net monthly wage was €487. The average net monthly wage recorded a growth of 0.6 per cent. in 2012 as compared to 2011. As a result of consumer prices increasing by 4.1 per cent. in 2012 as compared to 2011, the real net wages declined by 4.7 per cent. in 2012 as compared to 2011.

In 2013, the average gross monthly wage was €726, while the average net monthly wage was €479. The average net monthly wage decreased by 1.6 per cent. in 2012 as compared to 2011. Due to consumer prices increasing by 2.2 per cent. in 2013 as compared to 2012, the real net wages decreased by 3.8 per cent. in 2013 as compared to 2012.

Through November 2014, the average gross monthly wage was €723, while the average net wage was €477. The average net monthly wage decreased by 0.4 per cent. through November 2014 as compared to November 2013. Due to consumer prices increasing by 2.2 per cent., real net wages decreased by 2.6 per cent. in November 2014.

In 2013, the minimum wage was increased from 30 per cent. to 40 per cent. of the average salary in the country, but this measure did not have a significant impact on employment. The Government does not currently have specific plans for changing the existing wage policy in the medium term.

Employment

The following table sets out the number of employed and unemployed persons in Montenegro and their respective participation rates at year end for the years 2012, 2013 and at the end of the third quarter of 2014.

	2012	2013	2014 ⁽¹⁾
		(thousand)	
Total population (mid-period).....	619.7	619.9	619.0
Labour force ⁽²⁾	250.4	250.9	266.9
Persons in employment.....	201.0	201.9	223.2
Unemployed persons ⁽³⁾	49.4	48.9	43.7
Inactive persons ⁽⁴⁾	250.5	250.3	233.3
		(%)	
Employment rate ⁽⁵⁾	40.1	40.3	44.6
Activity rate ⁽⁶⁾	50.0	50.1	53.4

Source: MONSTAT

Notes:

(¹) At the end of the third quarter of 2014.

(²) Labour force includes persons in employment and unemployed persons.

(³) The term "unemployed" refers to persons who in the reference week did not work (i.e. not in paid employment or self-employment and did not do any paid work); in the past four weeks were actively seeking work (i.e. specific steps were taken to seek paid employment or self-employment); or were currently available for work (i.e. within two weeks). Persons who had found a job to start later are also included among unemployed persons.

(⁴) "Inactive persons" are those, aged 15 years and over, who are not classified as persons in employment or as unemployed persons

(⁵) "Employment rate" represents the percentage of persons in employment in the total population aged 15 and above.

(⁶) "Activity rate" represents the percentage of active population in the total population aged 15 and above.

The following table sets out the unemployment rate for the years 2012 to the end of the third quarter of 2014.

	As at 31 December		
	2012	2013	2014 ⁽¹⁾
		(%)	
Unemployment rate ⁽²⁾	19.9	19.6	16.6

Source: MONSTAT

Notes:

(¹) At the end of the third quarter of 2014.

(²) "Unemployment rate" represents the percentage of unemployed persons in the total active population aged 15 to 64 based on the International Labour Organisation Methodology.

The global financial and economic crisis in 2008 and 2009 has had a negative effect on the labour market in Montenegro, with the unemployment rate increasing to 19.9 per cent. as at the end of 2012, decreasing to 19.6 per cent. as at the end of 2013 and 16.6 per cent. as at the end of the third quarter of 2014. Operational changes at KAP and the Steel Mill described above could result in further layoffs in the near to medium term, which may increase the unemployment rate. According to data from MONSTAT and EUROSTAT, when measured using ILO Methodology the unemployment rate in Montenegro increased by 2.2 percentage points on average between 2008 and 2013, compared to an average of 3.8 percentage points across the EU.

As at 31 December 2013, the number of employed persons increased by approximately 900 people as compared to the same period of 2012. The number of unemployed persons as at 31 December 2013 amounted to 48.9 thousand, which represented a decrease of 1.0 per cent. as compared to 31 December 2012. The number of unemployed persons as at 30 September 2014 amounted to approximately 43.7 thousand, which represented a 4.4 per cent. decrease from the same period in 2013. However, the proportion of the working age population (people aged 15 to 64) to people aged 65 or older) remains high (42.3:8.3 as at 31 December 2013).

Due to the fact that persons employed in the tourism or tourism-related sectors account for a substantial portion of the labour force (according to The World Travel and Tourism Council's 2014 publication, persons employed in the tourism or tourism-related sectors in Montenegro accounted for 18.3 per cent. of the total Montenegrin labour force in 2013) and the fact that the tourist season in Montenegro generally

peaks during the July-August period, the unemployment rate in Montenegro may be subject to seasonal fluctuations throughout the year. For example, in September 2013 the number of employees in the six coastline municipalities was 8.8 per cent. higher than in January 2013, while the number of employed persons in all municipalities in September 2013 was 2.4 per cent. higher than in January 2013.

Changes in the labour market have been influenced by two major factors: an increase in the flexibility of the labour force and a decrease in the fiscal burden imposed on employers (including in tax rates and social insurance contribution levels). In recent years, the Government introduced measures to reduce redundancy costs and the maximum duration of fixed-term contracts, while increasing statutory paid annual leave.

The average tax burden on labour, calculated based on the average wage of the average production worker in the manufacturing industry (APW) in Montenegro as published by MONSTAT has declined from 50.5 per cent. in 2000 to 34.1 per cent. in 2013, which is close to the current OECD average for such measure.

In 2009, the Law on the Employment and Work of Foreigners was passed giving non-resident employees equal rights and obligations to those of Montenegro residents in the labour force. To some extent, this has made non-resident labour less attractive due to the removal of favourable tax rates for non-resident employees and has resulted in an increase in employment levels for the domestic labour force. Montenegro is one of the few countries in emerging Europe which employs a significant number of non-residents in its labour force. Since the beginning of 2009, over 20,000 work permits for non-residents have been issued, which has significantly influenced employment growth in the tourism, construction, agriculture and retail sectors.

Pension System

Since 2008, the Government has been implementing reforms to its pension system. As part of these reforms, the Law on Pension and Disability Insurance was adopted by the Parliament in December 2003 to provide for the implementation of reforms in the pension and disability insurance area, including the increase in the retirement age of men from 60 to 65 and of women from 55 to 60, which are the current retirement ages. Changes have been made to the Pension and Disability Insurance Fund that seek to ensure that it operates more efficiently, including the introduction of a new integrated information technology system.

Pensions are fully financed from the state budget. The largest part of the funds is provided from the pensions contributions themselves while the pension fund deficit is covered from other Government revenues.

Pension and disability insurance in Montenegro is based on a multi-pillar system that seeks to ensure long term sustainability. The system comprises the following:

- compulsory pension and disability insurance based on financing by the employer (Pillar I);
- compulsory pension and disability insurance based on individual capitalised savings (Pillar II); and
- voluntary pension insurance based on individual capitalised savings (Pillar III).

In accordance with the Social Security Minimum Standards Convention No. 102 of the International Labour Organisation, compulsory pension and disability insurance is available to all qualifying members of the economically active working population. For every employee in Montenegro, employers allocate 5.5 per cent. of gross salary to the pension fund. Other contributions include those by insurers and any shortfall in income generated by the employer's contributions is covered out of total central Government budget revenue. State pensions and disability benefits are index-linked rather than being linked to average earnings.

In light of the growing proportion of pension-age population resulting in higher pension expenditures by the Government, the relatively low activity rate of the population in the workforce and the unpredictability of the potential overall pension expenditure for Pillar I described above, the Government introduced certain amendments to the Law on Pension and Disability Insurance, which were passed by the Parliament in December 2010. The main changes relate to:

- gradual increase in the retirement age for men from 65 to 67 by 2024 and for women from 60 to 67 by 2041; and
- a change in the pension adjustment formula from 50 per cent. of growth in average wages in Montenegro and 50 per cent. of growth in consumer price index to 75 per cent. of growth in consumer price index and 25 per cent. of growth in average wages in Montenegro.

Pursuant to the Law on Voluntary Pension Funds, two companies have been issued with licences for the management of voluntary pension funds to date: Atlas Penzija a.d. Podgorica and Market Invest a.d. Bijelo Polje. As at the end of 2012, the Government adopted a package of fiscal measures, which, among other things, suspended annual pension adjustments for 2013. After assessing the impact of these measures, the Government unfroze pension levels in 2014. However, the pension levels are expected to remain static despite a fall in inflation levels.

BALANCE OF PAYMENTS AND FOREIGN TRADE

The following tables set out Montenegro's current and capital and financial accounts for the years 2010 to 2013 and the first three quarters of 2014 in million of Euros and as a percentage of GDP.

	2010	2011	2012	2013 ⁽¹⁾	2014 ^{(1) (2)}
	<i>(€ million)</i>				
A. Current Account (1+2+3+4)	(710.2)	(573.4)	(587.6)	(486.6)	(267.6)
1. Goods	(1,267.2)	(1,306.2)	(1,389.2)	(1,328.6)	(1,027.7)
1.1. Export	356.6	476.5	391.9	395.7	268.2
1.2. Import	1,623.8	1,782.8	1,781.1	1,724.3	1,295.9
2. Services	464.3	589.3	612.3	653.2	666.5
2.1. Credit	801.0	906.1	997.6	994.4	912.2
2.2. Debit	336.8	316.8	385.3	341.2	245.7
3. Income	(21.7)	26.3	53.8	65.5	15.1
3.1. Credit	165.8	192.8	206.2	212.7	166.4
3.2. Debit	187.5	166.6	152.4	147.1	151.3
4. Current transfers	114.4	117.3	135.5	123.2	78.6
4.1. Credit	146.3	155.8	179.7	187.8	130.7
4.2. Debit	31.9	38.5	44.2	64.6	52.1
B. Capital & Financial Account	515.1	401.4	344.6	236.8	(43.4)
1. Capital account	(0.5)	(3.0)	7.4	2.6	0.0
2. Financial account	515.6	404.4	337.2	234.3	(43.4)
2.1 Direct investment — net	552.1	389.1	461.6	323.9	256.4
2.2 Portfolio investment — net	191.3	148.6	(24.7)	42.0	110.1
2.3 Other investment — net	(211.2)	(247.7)	(55.1)	(54.2)	(299.7)
2.4 Change in reserve assets (CBM)	(16.6)	114.3	(44.6)	(77.4)	(110.2)
C. Net Errors & Omissions (-A-B)	195.1	172.0	243.0	249.8	311.0

	2010	2011	2012	2013 ⁽¹⁾	2014 ^{(1) (2)}
	<i>(% of GDP)</i>				
A. Current Account (1+2+3+4)	(22.9)	(17.7)	(18.7)	(14.6)	(10.4)
1. Goods	(40.8)	(40.4)	(44.1)	(39.9)	(40.0)
1.1. Export	11.5	14.7	12.4	11.9	10.4
1.2. Import	52.3	55.1	56.6	51.8	50.4
2. Services	15.0	18.2	19.4	19.6	25.9
2.1. Credit	25.8	28.0	31.7	29.9	35.5
2.2. Debit	10.8	9.8	12.2	10.3	9.6
3. Income	(0.7)	0.8	1.7	2.0	0.6
3.1. Credit	5.3	6.0	6.5	6.4	6.5
3.2. Debit	6.0	5.1	4.8	4.4	5.9
4. Current transfers	3.7	3.6	4.3	3.7	3.1
4.1. Credit	4.7	4.8	5.7	5.6	5.1
4.2. Debit	1.0	1.2	1.4	1.9	2.0
B. Capital & Financial Account	16.6	12.4	10.9	7.1	(1.7)
1. Capital account	0.0	(0.1)	0.2	0.1	0.0
2. Financial account	16.6	12.5	10.7	7.0	(1.7)
2.1 Direct investment — net	17.8	12.0	14.7	9.7	10.0
2.2 Portfolio investment — net	6.2	4.6	(0.8)	1.3	4.3
2.3 Other investment — net	(6.8)	(7.7)	(1.7)	(1.6)	(11.7)
2.4 Change in reserve assets (CBM)	(0.5)	3.5	(1.4)	(2.3)	(4.3)
C. Net Errors & Omissions (-A-B)	6.3	5.3	7.7	7.5	12.1

Source: Central Bank of Montenegro

Notes:

⁽¹⁾ Balance of payments data for 2013 and 2014 are compiled in accordance with new IMF methodology, which is found in Balance of Payments Manual, sixth edition, published in 2009. The revision of data for previous years is in progress.

⁽²⁾ Preliminary data for the first three quarters of 2014. Percentage of GDP was calculated using GDP for the first three quarters of 2014.

Current Account

Between 2010 and 30 September 2014, the current account deficit decreased by 15.0 percentage points relative to GDP. The current account deficit slightly increased in 2012 as compared to 2011 and amounted to €587.6 million, or 18.7 per cent. of GDP, principally as a result of a decrease in the export of goods. However, in 2013 the current account deficit amounted to €486.9 million or 14.6 per cent. of GDP. In 2013, the current account deficit decreased mainly due to the decrease in imports of goods and

increases in the export of goods, which resulted in a decrease in the trade deficit, as well positive trends on other sub accounts of the current account. Surplus in the services account amounted to €653.2 million or 19.6 per cent. of GDP in 2013, principally reflecting the positive trends in the tourism sector. According to preliminary data for the first three quarters of 2014, the current account deficit amounted to €267.6 million, which represents a 16.4 per cent. increase as compared to the same period in 2013. The increase in the current account is due to an increase in the trade deficit, as well as a decrease in the surplus on primary and secondary income accounts.

Capital and Financial Account

During 2005-2007, large inflows of foreign capital fully funded the current account deficit and resulted in significant accumulation of reserves at the Central Bank. This trend was partly reversed by the deposit outflows from banks in 2008 as a result of the global financial and economic crisis in 2008 and 2009, but the Central Bank was able to accumulate reserves during 2009 as the level of imports fell.

In 2012, net FDI increased by 18.6 per cent. to €461.6 million, or 14.7 per cent. of GDP. However, in 2013, net FDI decreased to €323.9 million, or 9.7 per cent. of GDP, principally due to still-difficult economic conditions in Europe and turbulent financial markets. According to preliminary data for the eleven months ended 30 November 2014, net FDI amounted to €314.1 million, which represents a 17 per cent. increase as compared to the same period in 2013.

Foreign Trade

Foreign Trade in Goods

The global financial and economic crisis in 2008 and 2009 resulted in a decline in global commodity prices and a general fall in worldwide demand. This in turn had a negative impact on Montenegro's foreign trade in 2011. In 2012, however, the trend reversed, and the total volume of foreign trade in goods decreased by 3.9 per cent. as compared to 2011 and amounted to €2,187.8 million. The decrease was principally due to a decrease in exports of goods, which declined by 19.3 per cent. as compared to 2011 and amounted to €366.9 million, mainly due to a decrease in aluminium exports resulting from lower production levels, while imports remained generally stable in 2012 as compared to 2011.

In 2013, the total volume of foreign trade in goods amounted to €2,148.8 million, which represents a decrease of 1.8 per cent. as compared to 2012. The decrease was mainly due to a 2.6 per cent. decrease in imports of products used in the production of aluminium, partially offset by a slight increase in exports of goods. The imports of goods declined principally as a result of a 23.0 per cent. decrease in the imports of mineral fuels, lubricants and related materials as compared to 2012.

In 2014, the total volume of foreign trade in goods amounted to €2,121.7 million, which represents a decrease of 1.3 per cent. as compared to the same period in 2013. The decrease was mainly due a decrease in the production of electricity and aluminium.

The following tables set out geographic distribution of Montenegrin exports and imports of goods for the years 2012, 2013 and 2014.

	Exports					
	2012		2013		2014	
	(€ million)	(%)	(€ million)	(%)	(€ million)	(%)
Croatia.....	83.54	22.77	59.5	15.85	33.08	9.79
Serbia.....	83.36	22.72	133.45	35.54	79.99	23.66
Slovenia	28.89	7.87	36.00	9.59	13.31	3.94
Bosnia and Herzegovina.....	27.41	7.47	18.38	4.90	31.82	9.41
Kosovo.....	22.97	6.26	19.17	5.11	21.35	6.32
Hungary	18.06	4.92	1.13	0.30	0.59	0.17
Germany.....	14.38	3.92	13.29	3.54	5.86	1.73
Italy	12.39	3.38	15.72	4.19	34.83	10.30
Turkey.....	11.70	3.19	9.73	2.59	5.75	1.70
Albania.....	7.63	2.08	11.97	3.19	15.17	4.49
Russia.....	7.42	2.02	5.78	1.54	4.02	1.19

	Exports					
	2012		2013		2014	
	(€ million)	(%)	(€ million)	(%)	(€ million)	(%)
Others	49.13	13.39	51.38	10.12	92.27	27.30
Total	366.90	100.00	375.5	100.00	338.04	100.00

Source: MONSTAT

	Imports					
	2012		2013		2014	
	(€ million)	(%)	(€ million)	(%)	(€ million)	(%)
Serbia	532.89	29.27	505.93	28.53	480.42	26.93
Greece	159.19	8.74	149.79	8.45	144.46	8.10
China	130.61	7.17	142.78	8.00	132.74	7.44
Bosnia and Herzegovina	123.23	6.77	126.20	7.12	126.70	7.10
Germany	115.67	6.35	116.45	6.57	114.64	6.43
Italy	112.45	6.18	117.61	6.63	116.02	6.50
Croatia	110.44	6.07	97.51	5.50	106.63	5.98
Slovenia	73.14	4.02	64.13	3.62	56.66	3.18
Austria	32.68	1.79	33.50	1.89	32.43	1.82
Netherlands	32.14	1.77	29.29	1.65	59.55	3.34
Turkey	28.50	1.57	33.25	2.00	36.38	2.04
Others	369.92	20.32	356.77	20.04	377.08	21.14
Total	1,820.85	100.00	1,773.21	100.00	1,783.71	100.00

Source: MONSTAT

Composition of Foreign Trade in Goods

The following tables set out the composition of Montenegro's exports of goods in euros and as a percentage of total exports for the years 2012, 2013 and 2014.

	2012	2013	2014
	(€ thousand)		
Manufactured goods classified chiefly by material ⁽¹⁾	154,046	101,814	82,782
Crude materials, inedible, except fuels	56,142	59,653	63,664
Mineral fuels, lubricants and related materials	50,463	108,081	51,267
Food and live animals	27,726	29,093	61,772
Machinery and transport equipment	25,896	25,881	22,850
Beverages and tobacco	25,469	24,346	25,403
Chemicals and related products, not elsewhere specified	11,972	9,238	12,765
Miscellaneous manufactured articles	8,111	9,084	11,005
Commodities and transactions not classified elsewhere in the SITC	3,814	6,075	486
Animal and vegetables oils, fats and waxes	3,257	2,270	6,044
Total exports	366,896	375,536	338,036

Source: MONSTAT

Notes:

⁽¹⁾ Manufactured goods include metals (including aluminium and steel), timber, leather, fur, paper, minerals and textiles.

	2012	2013	2014
	(% of total)		
Manufactured goods classified chiefly by material ⁽¹⁾	41.99	27.11	24.49
Crude materials, inedible, except fuels	15.30	15.88	18.83
Mineral fuels, lubricants and related materials	13.75	28.78	15.17
Food and live animals	7.56	7.75	18.27
Machinery and transport equipment	7.06	6.89	6.76

Beverages and tobacco	6.94	6.48	7.51
Chemical and related products, not elsewhere specified	3.26	2.46	3.78
Miscellaneous manufactured articles	2.21	2.42	3.26
Commodities and transactions not classified elsewhere in the SITC	1.04	1.62	0.14
Animal and vegetables oils, fats and waxes	0.89	0.60	1.79
Total exports	100.00	100.00	100.00

Source: MONSTAT

Note:

⁽¹⁾ Manufactured goods include metals (including aluminium and steel), timber, leather, fur, paper, minerals and textiles.

The following tables set out the composition of Montenegro's imports of goods in euros and as a percentage of total imports for the years 2012, 2013 and 2014.

	2012	2013	2014
	<i>(€ thousand)</i>		
Food and live animals	356,578	368,151	397,731
Mineral fuels, lubricants and related materials	334,356	257,994	236,466
Machinery and transport equipment	332,870	345,267	338,887
Manufactured goods classified chiefly by material ⁽¹⁾	263,391	263,896	270,368
Miscellaneous manufactured articles	222,137	226,657	239,404
Chemicals and related products, not elsewhere specified	169,570	179,265	181,136
Beverages and tobacco	65,091	64,802	63,289
Crude materials, inedible, except fuels	60,358	48,592	42,884
Animal and vegetables oils, fats and waxes	16,073	14,400	13,539
Commodities and transactions not classified elsewhere in the SITC	425	4,190	6
Total imports	1,820,850	1,773,215	1,783,711

Source: MONSTAT

Note:

⁽¹⁾ Manufactured goods include metals (including aluminium and steel), timber, leather, fur, paper, minerals and textiles.

	2012	2013	2014
	<i>(% of total)</i>		
Food and live animals	19.58	20.76	22.30
Mineral fuels, lubricants and related materials	18.36	14.55	13.26
Machinery and transport equipment	18.28	19.47	19.00
Manufactured goods classified chiefly by material ⁽¹⁾	14.47	14.88	15.16
Miscellaneous manufactured articles	12.20	12.78	13.42
Chemicals and related products, not elsewhere specified	9.31	10.11	10.16
Beverages and tobacco	3.57	3.65	3.55
Crude materials, inedible, except fuels	3.31	2.74	2.40
Animal and vegetables oils, fats and waxes	0.88	0.81	0.76
Commodities and transactions not classified elsewhere in the SITC	0.02	0.24	0.00
Total imports	100.00	100.00	100.00

Source: MONSTAT

Note:

⁽¹⁾ Manufactured goods include metals (including aluminium and steel), timber, leather, fur, paper, minerals and textiles.

In 2012, total exports declined by 19.3 per cent. mainly due to a 29.8 per cent. decrease in manufactured goods, principally due to decreases in aluminium and steel exports as a result of lower production levels at KAP (mainly due to suppressed global aluminium prices in 2012 and difficulties relating to electricity procurement by the plant) and the Steel Mill (primarily due to its bankruptcy and subsequent sale to new owners in 2012, which resulted in periodic suspensions and declines in production). Imports remained generally flat in 2012 as compared to 2011.

In 2013, total exports amounted to €375.5 million, which is an increase of 2.4 per cent. as compared to 2012. Total imports of goods amounted to €1,773.2 million in 2013, which is a decrease of 2.6 per cent., as compared to 2012, principally as a result of a decline in the imports of electricity (48.9 per cent.) and oil and petroleum products (10.8 per cent.) resulting from a decrease in the national production of aluminium.

In 2014, Montenegro's total external trade was €2,121.7 million, which represents a 1.3 per cent. decrease as compared to the same period in 2013. Total exports in 2014 amounted to €338.0 million, which is a decrease of 10.0 per cent. as compared to the same period in 2013. The decrease was primarily due to a decrease in the production of electricity and aluminium. Total imports of goods amounted to €1,783.7 million, which is an increase of 0.6 per cent. as compared to the same period in 2013. The increase was primarily due to an increase in the import of food.

Foreign Trade in Services

The total volume of foreign trade in services witnessed growth each year during the 2009-2013 period. Similarly, during 2013 Montenegro recorded a year-on-year growth in the surplus of its services account, which was principally due to the growth of exports in services. The growth of the exports in services during this period was principally due to positive trends in the tourism and transportation sectors. Increases in arrivals and overnight stays of foreign tourists resulted in the growth of revenues from the tourism sector despite the unfavourable economic environment in the region.

In 2012, the total volume of foreign trade in services increased by 13.1 per cent. as compared to 2011, while the surplus on services account increased by 3.9 per cent. during the same period. The increases were primarily due to a 10.1 per cent. growth in exports of services (principally reflecting the growth of the tourism sector).

In 2013, the total volume of the surplus on services account continued to expand and amounted to €653.2 million. For the first three quarters 2014, the total volume of the surplus on services account amounted to €666.5 million, which represents a 5.4 per cent. increase as compared to the same period in 2013. For the first three quarters of 2014, total services revenue amounted to €912.2 million, which represents a 2.8 per cent. increase as compared to the same period in 2013, while total services expenditures amounted to €245.7 million, which represents a 3.5 per cent. decrease as compared to the same period in 2013. Revenues from travel-tourism are estimated at €658.2 million for the first three quarters of 2014, which is a 2.5 per cent. increase as compared to the same period in 2013.

The following table sets out the export and import of goods and services as a percentage of GDP for the years 2009 to 2013 and the first three quarters of 2014.

	2009	2010	2011	2012	2013	2014 ⁽¹⁾
	<i>(% of GDP)</i>					
Export of goods and services.....	34.5	37.3	42.8	44.1	41.8	34.8
Import of goods and services.....	65.4	63.2	64.9	68.8	62.1	45.4
Total (export and import of goods and services).....	99.9	100.5	107.7	112.9	103.9	80.2

Source: MONSTAT and Central Bank of Montenegro

Notes:

(1) Preliminary data for the first three quarters of 2014. Percentage of GDP was calculated using an estimate of GDP for the year ended 31 December 2014.

Foreign Direct Investment

In 2012, net inflows of FDI recorded an increase of 18.6 per cent. as compared to the previous year. However, in 2013 net FDI decreased by 29.8 per cent. compared to 2012 and amounted to €323.9 million. This decrease in 2013 was mainly due to a decline in equity investments of 36.6 per cent., while at the same time inflow arising from intercompany lending increased by 16.2 per cent. According to preliminary data, for the eleven months ended 30 November 2014, net FDI increased by 17 per cent. compared to the same period in 2013 and amounted to €314.1 million. Total FDI inflow increased by 9.9 per cent. compared to the same period in 2013 and amounted to €446.6 million, of which 46.6 per cent. consisted of intercompany debt, 35.8 per cent. consisted of investment in real estate and 16.2 per cent. consisted of investments in companies.

The number of foreign registered companies increased from 1,145 in 2005 to over 5,070 in 2012. Investment projects that have largely been completed or are still underway are significantly changing the local economy and include the construction of Porto Montenegro (the first Montenegrin marina for yachts in the Mediterranean), luxury hotels, such as Aman Resort, Banyan Tree, Hilton and One&Only luxury resort in Kumbor, a prime real estate development by Orascom on the Lustica Peninsula (as discussed below), a luxury five-star hotel complex at the Blue Horizon site and fibre optic cable and fast internet services being made available across the country.

Montenegro seeks to encourage foreign investment by offering, among other things, a flat rate tax system and low tax rates, with both corporate and personal income taxes of 9 per cent., and allowing overseas investors to remit profits, dividends and interest freely. Having adopted the euro as its currency and with stable macroeconomic policies, the Government expects to be able to continue to attract significant levels of FDI.

The following major FDI projects are currently underway:

Porto Montenegro

The Canadian developer, PM Securities, has begun a development project at Porto Montenegro, a yacht marina and residential complex on the Montenegrin coast in Boka Bay in the municipality of Tivat with a projected total investment of approximately €600 million, of which approximately €200 million has been invested to date. Porto Montenegro's marina is open and currently has 460 berths, but is expected to have approximately 600 berths upon completion. The marina enjoys high occupancy and visits from yachts of all sizes. Marina services include wireless internet, 24-hour security, laundry facilities and a crew club with tennis and squash courts, a fitness centre, bowling alley and internet cafe. Long-term berths are available to residential property owners and short-term, seasonal and annual berths are available for non-residents. The residential complex is being developed to international luxury standards with residences having private courtyards and pools. In August 2014, Porto Montenegro opened its first five-star hotel in order to increase the marina visitor capacity and is carrying out other works to expand the overall marina capacity. The hotel is operated by Regent Hotels & Resorts, which operates hotels in Asia, the Americas and Europe.

The construction of another residential-commercial building valued at approximately €21 million, named Ksenija, will be completed in the summer of 2015.

Lustica Bay

Lustica Bay is a joint project between the Government of Montenegro and the Egyptian company Orascom Development Holding to develop a coastal community on 690 hectares of prime real estate on the Lustica Peninsula. The total planned investment is approximately €1,100 million and the project will include over 1,700 LEED certified apartments, townhouses and sea-view villas, seven hotels, two world-class marinas, an 18-hole golf course designed by Gary Player, spa, fitness, wellness and medical centres, business facilities and conference centres and other year-round amenities such as shops, restaurants, bars and schools.

In 2013, construction commenced on 10 buildings containing 72 apartments, which has since been completed. Handover of the apartments to purchasers is in process and will be completed in April 2015. Construction on one of two marinas, a project which is valued at approximately €44 million, commenced in the beginning of 2014 and is expected to be completed in a period of 18 months. Also, the Ministry of Sustainable Development and Tourism issued the first building permit for the construction of a golf course. Construction of the first hotel in Lustica Bay is expected to commence by the end of 2015.

Beyond Horizon

Qatari Diar, a property development and management company owned and operated by Qatar Investment Authority, is currently in the process of developing a luxury five-star hotel complex at the Plavi Horizonti site in the municipality of Tivat on the Montenegrin coast. The complex is expected to occupy an area of 27 hectares and will include hotels and residential villas, as well as a spa, shops, restaurants, beach club and sport facilities. The total project expenditure is estimated to be €250 million and the project is expected to start in 2015. The hotel is expected to become operational in July 2017.

Portonovi, Kumbor

On 12 July 2013, the Government and Azerbaijani state-owned oil and gas company Socar signed a long-term (90-year) lease agreement for 241.7 thousand square metres of land in Kumbor, near the town of Herceg Novi on the Montenegrin coastline. The lease agreement became effective in February 2013.

According to the investment plan in the lease agreement, Socar will build a One&Only luxury resort on the leased land, which would be the first One&Only resort in Europe. The total investment defined by the lease agreement is €258 million, but Socar announced publicly that it will double its investment in the project to approximately €500 million. It is expected that the project will be completed by 2018.

Malievik, Bar

In July 2007, Mercury Group brought 130,000 square meters in Malievik for the price of €32.5 million. The project will include a Condo Hotel as well as other supporting facilities, such as a reception space, commercial spaces, restaurants, spa and wellness centres, public parking lots and a parking garage. The total investment value of the project is approximately €290 million.

Kraljičina plaža, Dubovica

Kraljičina plaža is located between Budva and Bar and will be developed by Queens Beach Development Company. The total investment value of this project is €1.54 billion. There are two planned phases of development:

- Phase I is the Tourist Component, which includes the construction of a five-star boutique hotel with 100 rooms over 14,089 square meters, a destination spa over 3,000 square meters, 30 spa villas over 9,390 square meters, mooring with 50 berths for yachts, a casino over 1,000 square meters and food and beverage facilities including two large restaurants, a hotel and spa bar, a lobby bar and four additional restaurants.
- Phase II is the Residential Component, which includes the construction of 140 residential villas, 50 residential apartments and the Yacht Club, a luxury apartment building.

Other

In 2015, three new luxury hotels are expected to be completed:

- In Podgorica, the Hilton hotel is due to be completed. The hotel is expected to be a five-star hotel with nearly 200 units. The estimated value of the investment is €44 million.
- In Herceg Novi, the refurbishment of the "Igalo" Herceg Novi Hotel and Centre for rest, recreation and treatment is due to be completed. The hotel is expected to be a four-star hotel with 215 units. The estimated value of the investment is €6 million.
- In Petrovac, the "Cristal Riviera" hotel is due to be completed. The hotel is expected to be a five-star hotel with 262 units. The estimated value of the investment is €21.6 million.

Major future projects include:

- the construction of 330 kilometres of highways (in particular, the Government is currently in the process of implementing a €809 million road development project planned to be constructed during 2015-2018 and relating to a part of the motorway project between Bar and Belgrade (see "*The Economy—Principal Sectors of the Economy—Construction—Bar-Belgrade Motorway*" for additional information));
- the privatisation and expansion of the Port of Bar, upgrading the country's two airports and rail expansion;
- a large number of greenfield investments in tourism and the hotel industry (such as Long Beach and Valdanos in Ulcinj, NTC Marina in Kotor, the islands of Ada Bojana, Sveti. Marko, Sveti. Nikola and the Island of Flowers and the development of the ski resort on Bjelasica Mountain at Kolasin);

- the construction of windparks, with the potential to produce in the aggregate 96 mega-watts of energy per year; and
- investments in communications and other infrastructure projects.

Privatisation

The privatisation process in Montenegro gained momentum after 2001 and more than 85 per cent. of state-owned enterprises have now been privatised. In addition, the privatisation of a large number of companies, particularly in the tourism sector, has been achieved partially by sales of the relevant assets which are not reflected as a change in the ownership structure, as well as by the sale and distribution of minority stakes in the relevant companies, thereby effectively increasing the overall level of private ownership in the sector.

Privatisation in Montenegro has mainly been implemented by the sale of shares and assets by public auction, public tenders or the sale of shares pursuant to the annual privatisation plan, adopted by the Government upon the recommendation of its Privatisation Council. On 27 December 2012, the Government created a new Privatisation and Capital Projects Council (the "**Council**"). This new Council is headed by the Prime Minister and includes 16 other members including the Deputy Prime Minister and six Ministers. The Council meets at least every month to make decisions relating to specific privatisations and is assisted by three Tender Commissions, which are auction commissions established to consider issues relating to the Council. The annual privatisation plan sets out the main goals and other aspects of the privatisation process for the relevant year and the methods and principles to be employed in the privatisation of relevant companies in that year.

The country's privatisation process is now in its final phase. The majority of companies that are still state-owned and have strategic importance in the Montenegrin economy, most notably in the transport and tourism sectors, are in the privatisation pipeline. The Government expects that the privatisation of remaining state-owned companies will further enhance their growth prospects and improve the competitiveness and productivity of the economy and is focused on completing the process.

Privatisation of the telecommunications and banking sectors was completed in 2005, while privatisation in the tourism industry was mainly carried out between 2001 and 2008. The privatisation of KAP and the bauxite mines in Niksic was completed in 2005. In 2006, the privatisation process for the Steel Mill was completed. See also *"The Economy—Principal Sectors of the Economy—Industrial Production"*.

In order to improve conditions for new construction and development and to facilitate the efficient operation of existing power generation and distribution facilities in Montenegro, the partial privatisation and capital increase of EPCG was completed in 2009. The Italian company, A2A S.p.A., purchased the State's shares as well as newly issued shares, shares owned by certain privatisation funds and most of the shares of other minority shareholders, acquiring a total stake of 43.7 per cent. with a total investment of €436.1 million. See also *"Montenegro—International Relations—Montenegro and Regional Relationships"*.

A tender for the privatisation of the company JSC "Container Terminal and General Cargo" Bar has been successful, with a contract of sale and purchase for 62.09 per cent. shares in the company signed between JSC "Container Terminal and General Cargo" Bar, the Government of Montenegro, as seller, and Global Ports Holding of Istanbul, Turkey, on 15 November 2013. Total value of this transaction was around €8.07 million.

Following the privatisation of several Montenegrin hotels in recent years, significant investment in the tourism industry is under way, which is expected to further improve existing capacity resulting in the continued expansion and renovation of the tourism infrastructure in Montenegro, particularly the hotel services.

According to the Decision of the Privatisation Plan for 2014, implementation of the published tender for the privatisation of "Jadransko brodogradilište" AD Bijela (Adriatic Shipyard) shall continue. Pursuant to decisions issued by the Council, preparation and implementation of public tenders for the following companies and assets are expected to continue: "Montenegro Airlines" AD Podgorica, HG "Budvanska rivijera" AD Budva, HTP "Ulcinjaska rivijera" AD Ulcinj, Institut "Dr Simo Milošević" AD Igalo and AD "Marina" Bar. In addition to these companies and assets, the draft Privatisation Plan for 2015

contemplates the implementation of tender sales for Novi duvanski kombinat in Podgorica, Podgorica i Hotel Park and Polix in Berane.

Tenders announced for the privatisation of, or creation of public-private partnerships relating to, the following tourism locations are expected to continue: former military resort VTK "Mediteran" Žabljak, located on the coast near Njivice in the municipality of Herceg Novi, the Kotor Tourism Kompleks Ecolodge located in Vranjina in the municipality of Podgorica, Donja Arza in Herceg Novi and ski resort Kolašin 1600.

Pursuant to the privatisation plan of the Council for Privatisation, the Tender Committee for Valorisation of Tourism Localities shall continue its work on the preparation and implementation of public international tenders for the long-term leases and tourism development of the following locations: (i) Velika Plaža in Ulcinj (including the development, construction, financing and management of an exclusive tourism complex in Ulcinj), (ii) Ada Bojana in Ulcinj, (iii) the complex "Valdanos" located in Ulcinj, (iv) the complex "Ostrvo cvijeća", (v) the ski resort "Savin kuk" and "Radjoke Dakic" located in Žabljak, (vi) a location between Njivice and the Sutorina River in Herceg Novi, (vii) a golf course in Tivat, (viii) Flower Island and (ix) many other locations identified to have potential for tourism development.

Pursuant to the decisions issued by the Council, procedures for the selection of investors for a public-private partnership model shall be implemented in relation to the Pošta Crne Gore AD Podgorica (Post Office of Montenegro).

In addition, some of the companies may be privatised through stock exchange sales and through the sale of shares and assets by public auction. The Privatisation Plan for 2015 had not yet been adopted as at the date of this Prospectus.

MONETARY AND FINANCIAL SYSTEM

The Central Bank of Montenegro

The Central Bank of Montenegro (the "**Central Bank**") is the main monetary authority in Montenegro. The Central Bank was established in November 2000 following the promulgation of the Law on Central Bank of Montenegro and began operations in March 2001 following the adoption by the Montenegrin Parliament of the "Decision on Appointment of Members of Council of the Central Bank of Montenegro".

The Constitution specifies that the Central Bank is the institution responsible for (i) the monetary and financial stability and (ii) the functioning of the banking system. In 2010 the new Law on the Central Bank of Montenegro was adopted. Under this new Law, the Central Bank of Montenegro is required to act independently in pursuing its objectives. In accordance with the new Law, the main powers and responsibilities of the Central Bank are to:

- oversee the maintenance of stability of the financial system as a whole and pass pertinent regulations and measures;
- issue licenses and approvals to banks and financial institutions and supervise banks and financial institutions; carry out bankruptcy and liquidation proceedings against banks and financial institutions; accept deposits of banks and financial institutions; open accounts for banks and financial institutions;
- regulate and oversee the national and international payment systems and supervise payment system transactions; act as payment system owner and operator and a participant in other payment systems; license payment systems other than the one it operates and oversee these payment systems;
- manage the international reserves;
- act as the payment and/or the fiscal agent towards international financial institutions and act as the representative of Montenegro in international financial institutions;
- act as banker of government bodies and organizations, adviser and fiscal agent of the Montenegrin Government; and
- perform other activities in accordance with the Law on the Central Bank of Montenegro.

Monetary Policy

As a result of the adoption of the euro as the Montenegrin currency, the Central Bank's ability to regulate monetary policy is limited. The primary monetary policy instrument of the Central Bank is the mandatory reserve requirement. The Central Bank requires Montenegrin banks to hold mandatory reserves at the Central Bank's accounts (in the country and/or overseas) a proportion of which may be in the form of Treasury bills issued by the State.

In accordance with the Law on the Central Bank of Montenegro, the Central Bank is able to use open market operations, intraday and overnight loans, as well as short term liquidity loans in order to preserve the liquidity of the banking system. In exceptional circumstances, the Central Bank may act as a lender of last resort to ensure the financial stability of Montenegro.

The Law on the Central Bank of Montenegro states that the Central Bank may operate in financial markets by purchasing, selling and swapping securities and other readily marketable financial instruments, and by purchasing and selling precious metals. According to the Central Bank's "Decision on open market operations" (OGM, No. 15/11), the Central Bank of Montenegro "shall perform open market operations by purchasing from and selling to banks securities issued by the State of Montenegro, EU Members States and international financial institutions or other securities it deems acceptable".

Foreign Assets

Foreign assets held by the Central Bank as at 31 December in each of the years 2011 to 2014 are set out in the table below.

	As at 31 December			
	2011	2012	2013	2014 ⁽¹⁾
	(€ thousand)			
Foreign assets held by Central Bank	303,464	347,918	423,710	544,740

Source: Central Bank of Montenegro

Notes:

⁽¹⁾ Data for 2014 is preliminary.

Central Bank Interest Rates

The Central Bank does not have a reference interest rate. It does, however, publish weighted average lending (outstanding amounts and new business) and deposit interest rates of the banks operating in the Montenegrin banking system.

The following table sets out the weighted average aggregate lending and deposit rates (outstanding amounts) as at 31 December 2011, 2012, 2013 and 2014.

	As at 31 December			
	2011	2012	2013	2014
	(% per annum)			
Weighted average lending rate – Outstanding amounts.....	9.69	9.47	9.36	9.22
Weighted average lending rate – New business.....	9.64	9.38	9.42	9.02
Weighted average deposit rate.....	3.25	3.23	2.54	1.83

Source: Central Bank of Montenegro

Economic, Prudential and Monetary Policy Measures in the Banking System

The impact of the global financial and economic crisis first became evident in the Montenegrin banking system in October 2008 and led to a significant reduction in bank deposits, constraints on banks' ability to access external sources of funding, reduction of inflow of funds (particularly funds relating to repayment of loans as a result of the deterioration in the financial position of borrowers, which also led to an overall decline in the quality of assets) and almost total discontinuance of banks' lending activities. This resulted in severe liquidity problems for many small businesses operating in the service sector of the Montenegrin economy, which have no alternative means of financing, and contributed to an increase in the overall level of tax arrears, particularly for the service sector.

In order to preserve the stability and safety of the banking sector, the Central Bank implemented, in cooperation with the Government, comprehensive measures to respond to the challenges posed by the crisis. In October 2008, the "Law on the Banking System Safeguards" (the "**Law**") was adopted to prevent the escalation of the crisis and to maintain the stability, liquidity and solvency of the banking sector. The Law was temporary and expired at the end of 2009.

In 2010, three new laws were passed to assist with the regulation of the banking system: Law on Protection of Deposits, Law Amending the Banking Law and Law on the Financial Stability Council.

The new Law on Protection of Deposits has been further harmonised with relevant EU legislation: there has been a gradual increase in the amount of guaranteed deposits over time (€20,000 in 2011, €35,000 in 2012 and €50,000 in 2013), payment methods and procedures have been improved and the timeframe for proceedings related to the payment of guaranteed deposits has been shortened from 90 business days to 30 business days.

The Law Amending the Banking Law introduced measures to strengthen the role of the Central Bank in order to ensure greater stability in the banking system. It addressed certain corporate governance issues and expanded the powers of a temporary bank administrator and also provides for certain powers which may be exercised by the Central Bank in regulating banks.

The Law on the Financial Stability Council established a Financial Stability Council to monitor, identify, prevent and mitigate potential systemic risks in the financial system of Montenegro as a whole, in order to ensure the maintenance of the financial system stability and avoid episodes that may lead to widespread financial distress. The members of the Financial Stability Council are: the Governor of the Central Bank of Montenegro, the Minister of Finance, the President of the Council of the Insurance Supervision Agency and the President of the Securities and Exchange Commission.

In 2011, the Central Bank adopted the "Decision on Bank Reserve Requirement to be held with the Central Bank of Montenegro" (the "**Decision**") with the aim of improving the maturity structure of deposits of the Montenegrin banks. According to the Decision, the reserve requirement ratio is reduced from 10.0 per cent. to 9.5 per cent. for deposits with a maturity of up to one year and to 8.5 per cent. for deposits with a maturity over one year. In 2013, the Decision was amended (the "**First Amending Decision**") allowing banks to hold up to 30 per cent. of the mandatory reserve in the form of 182-day treasury bills issued by the State of Montenegro, and 13 per cent. of the mandatory reserve in the form of 91-day treasury bills issued by the State of Montenegro. In 2014, the Decision was amended once again (the "**Second Amending Decision**") allowing banks to hold up to 35 per cent. of the mandatory reserve in the form of 182-day treasury bills issued by the State of Montenegro. The Second Amending Decision remains temporarily in force from 6 January 2015 until 31 December 2015.

Due to high lending bank interest rates in the past, in November 2012, the Central Bank passed the "Decision on Interim Measures for Limiting Bank Interest Rates". Pursuant to this Decision, the annual lending effective interest rate on individual banking loans granted to a legal person or an entrepreneur may not exceed 14 per cent., while the annual lending effective interest rate on loans granted to natural persons may not exceed 15 per cent. This Decision was in effect temporarily from November 2012 to May 2013. In May 2013, this Decision expired and the Council of the Central Bank concluded that, although the impact of this Decision has been positive, it would continue to monitor interest rates. In July 2014, the Central Bank recommended that banks reduce interest rates by the end of the third quarter of 2014. As a result, banks have slightly decreased interest rates since the third quarter of 2014. The Central Bank has continued to monitor interest rates developments and will take appropriate measures, if necessary, in order to decrease interest rates further.

Bank Supervision

Montenegro's current banking supervision system is based on Basel II. However, new legislation to align the system with the requirements of Basel III and CRD IV is currently being developed and expected to be adopted by the end of 2016 and implemented in 2018.

If the Central Bank observes irregularities in a bank's operations, it may take one of the following actions:

- warn the bank in writing about the irregularities and request the bank to undertake actions to rectify the irregularities;
- enter into a written agreement with the bank requiring the bank to rectify the irregularities within a specified time;
- issue an order imposing certain measures to remove the irregularities;
- institute interim administration of the bank; or
- revoke the bank's licence.

When a bank experiences significant distress, or if the bank does not comply with measures imposed by the Central Bank designed to improve the financial position of the bank, the Central Bank may introduce interim administration at the bank. On the day of appointing the interim administrator, all powers of the General Meeting, the executive directors, governance bodies, and the bank's agents shall be transferred to the interim administrator. Actions of the interim administrator for the bank resolution may include measures designed to improve the bank's operational costs, a proposal for changes in the bank's internal organisation and management, a sale of the bank's assets, the bank recapitalisation (including a sale of shares to new investors without the prior consent of existing shareholders), a transfer of the bank's assets and liabilities to another bank, restructuring of the bank, a proposal to the Central bank for the revocation of the bank's licence, and other measures in accordance with the applicable law.

Interim administration may last up to six months, and may be extended for additional three months if the Central Bank estimates that in the following six months the bank may attain the required level of own funds or solvency ratio and meet its obligations on a regular basis.

Banking Sector

As a result of the application of International Accounting Standards ("IAS") to companies in Montenegro from 1 January 2013, the new "Decision on Minimum Standards for Credit Risk Management in Banks" (OGM, No. 22/12, 55/12, 57/13.) was adopted in April 2012. Following this Decision, two further decisions were adopted – the "Decision on Chart of Accounts for Banks" (OGM, No. 55/12) and the "Decision on Reports to be Submitted to the Central Bank of Montenegro" (OGM, No. 64/12.). These new Decisions obliged banks to prepare their financial statements in accordance with IAS methodology from 1 January 2013.

The principal changes caused by the application of IAS relate to the introduction of accounts for recording value impairments of balance assets items, new definitions of financial instruments and reclassification of certain balance sheet positions in line with IAS.

The following table sets out the aggregate balance sheet of the Montenegrin banking sector as at 31 December 2009 to 2013 and as at 30 November 2014.

	As at 31 December					As at 30 November
	2009	2010	2011	2012	2013	2014
	(€ million)					
Total Assets	3,025.2	2,943.7	2,809.7	2,808.3	2,959.2	3,107.3
Cash and deposit accounts at depositary institutions ⁽¹⁾⁽²⁾	528.7	629.7	624.4	739.2	392.3	437.9
Cash.....	57.3	55.5	63.1	71.7	72.6	95.4
Cash equivalents and deposits accounts at depositary institutions ⁽¹⁾⁽²⁾	471.4	574.3	561.3	667.5	319.7	342.5
Securities for dealing operations.....	21.6	27.2	38.5	62	28.9	23.1
Investment securities.....	30.6	26.1	43.8	52.3	160.3	210.5
Net loans ⁽³⁾	2,247.5	2,058.3	1,856.1	1,730.9	2,241.3	2,275.5
Equity investments.....	30.2	27.6	19.1	22.9	14.7	15.5
Fixed assets.....	47.6	46.3	52.7	50.5	51.3	49.3
Other assets ⁽⁴⁾	119.0	121.1	175.1	150.5	70.5	95.6
Total Liabilities and Equity	3,025.2	2,943.7	2,809.7	2,808.3	2,959.2	3,107.3
Total liabilities.....	2,693.5	2,631.1	2,504.5	2,519.6	2,561.4	2,663.0
Total deposits ⁽⁵⁾	1,824.7	1,789.9	1,817.1	1,980.7	2,118.2	2,294.9
Bank deposits.....	80.2	6.7	7.3	8.4	26.0	12.5
Non-bank deposits.....	1,744.5	1,783.2	1,809.8	1,972.3	2,092.2	2,282.4
Demand deposits.....	666.2	732.8	708.6	759.6	885.2	1,042.0
Term Deposits of Enterprises.....	314.6	203.4	241.5	262.5	208.9	257.6
Term Deposits of Individuals.....	577.3	637.1	696.2	803.9	838.7	849.2
Term government deposits.....	101.0	61.3	39.8	35.1	35.2	36.9
Term other deposits.....	85.5	152.3	130.9	119.5	131.9	107.3
Borrowed funds.....	734.8	697.4	547.1	395.4	326.2	252.0
Other liabilities ⁽⁶⁾	134.0	143.3	140.3	143.5	116.9	116.1
Equity ⁽⁶⁾	331.7	310.9	305.2	288.7	397.8	444.4
Paid-in capital.....	339.7	411.1	431.2	477.7	500.6	522.8
Capital reserves.....	21.6	19.7	12.1	13.5	101.5	117.4
Retained profits.....	(29.6)	(117.9)	(138.1)	(202.5)	(206.3)	(215.6)
Net loans/total assets (%).....	74.3	70.1	66.1	61.6	75.7	73.2
Liquid assets/total assets (%).....	15.3	19.1	19.9	24.0	20.0	22.52
Net loans/total deposits (%).....	123.2	115.0	102.2	87.4	105.8	99.2
Total deposits/total liabilities (%).....	67.7	67.5	72.5	78.6	82.7	86.2
Demand deposits/total deposits (%).....	36.6	40.9	39.0	38.4	41.8	45.4
Borrowed funds/total liabilities (%).....	27.3	26.5	21.8	15.7	12.7	9.5
Borrowed funds/total assets (%).....	24.3	23.7	19.5	14.1	11.0	8.1

Source: Central Bank of Montenegro

Notes:

(1) Includes deposits at the Central Bank as well as deposit accounts at other depositary institutions (until 1 January 2013).

(2) From 1 January 2013, deposit accounts at other depositary institutions have been moved to the "Net Loans and other claims" category.

(3) From 1 January 2013, this category includes deposit accounts held at other depositary institutions as well as other claims and interests and accruals. This category was renamed "Net Loans and other claims" from 1 January 2013.

- (4) Other assets and other liabilities include all items which are not covered in this classification but which are specified in the Chart of Accounts of the Montenegrin banking sector.
- (5) From 1 January 2013, total deposits include interest and accruals.
- (6) The implementation of IAS 39 assumes the introduction of impairments for all balance sheet items. All items regarded as written-off loans and corresponding interest that were previously recorded off-balance sheet have been transferred to the balance sheet (new portfolio). Accordingly, banks have computed regulatory provision and impairments on the new portfolio. The difference between regulatory reserves and impairments from 1 January 2013 is treated as a capital reserve which now represents part of equity.

The following table lists banks in the Montenegrin banking system by market share by assets and indicates the ownership of each bank.

	Market share by assets as at 30 September 2014	Ownership as at 30 September 2014
	(%)	
Crnogorska Komercijalna Banka a.d.....	19.5	OTP Bank (100 per cent. foreign ownership)
NLB Montenegro banka a.d.....	17.15	Foreign holders (99.4 per cent.), domestic holders (0.4 per cent.), State-owned entities (0.2 per cent.)
Erste Bank.....	11.89	Erste & Steiermarkische Bank (100 per cent. foreign ownership)
Podgoricka banka Societe Generale.....	12.16	Foreign holders (94.8 per cent.), domestic holders (1.6 per cent.), State-owned entities (3.6 per cent.)
Prva Banka Crne Gore.....	8.64	Domestic Holders (73.2 per cent.), Foreign holders (2.7 per cent.), State-owned entities (24.1 per cent.)
Hypo Alpe-Adria Bank.....	7.68	Hypo SEE Holding AG (100 per cent. foreign ownership)
AtlasmontBanka.....	8.44	Foreign holders (59.2 per cent.), domestic holders (40.8 per cent.)
Hipotekarna banka.....	7.84	Foreign holders (77.3 per cent.), domestic holders (20.4 per cent.), State-owned entities (2.3 per cent.)
Komercijalna Banka a.d. Budva.....	3.73	Komercijalna Banka a.d. Beograd (100 per cent. foreign ownership)
Invest Banka.....	1.33	Domestic Holders (92.3 per cent.), Foreign holders (4 per cent.), State-owned entities (3.7 per cent.)
Universal Capital Bank a.d. ⁽¹⁾	1.32	Domestic holders (91.9 per cent.), Foreign holders (8.1 per cent.)
Lovćen banka ⁽²⁾	0.32	Domestic holders (73.2 per cent), Foreign holders (26.9 per cent)

Source: Central Bank of Montenegro

Notes:

(1) In late 2013, First Financial Bank was renamed Universal Capital Bank. Thereafter, it was treated as a domestic bank due to a change in ownership.

(2) Lovćen banka commenced operations in August 2014.

One domestic bank - Prva Banka Crne Gore established in 1901 ("**Prva Banka**") was particularly affected by the global financial and economic crisis in 2008 and 2009. In 2008, Prva Banka was the only bank to make use of the credit support for liquidity introduced by the Law on the Banking System Safeguards, with a loan in the amount of €44 million. See also "*Monetary and Financial System — Measures of economic, prudential and monetary policy in the banking system*". Although the loan was repaid in 2009, the Central Bank had restricted Prva Banka from making any new loans until it had conducted a further review of its situation. Following the review, the Central Bank has permitted Prva Banka to resume lending activities and it is no longer subject to any restrictions. Prva Banka currently maintains a capital adequacy ratio above the prescribed minimum.

The January 2015 announcement by the Swiss National Bank that it would no longer hold the Swiss franc at a fixed exchange rate with the euro has had limited impact on the Montenegrin banking sector. Only one bank has exposures in Swiss francs, which amounts in total to €30.6 million, or 1.57 per cent. of total loans in the Montenegrin banking system.

As of the date of this Prospectus, three banks and one micro-credit institution have expressed interest in entering the Montenegrin banking system. The Central Bank is currently considering three applications.

The following table sets out certain selected Montenegrin banking sector performance indicators.

	As at 31 December			As at 30 November
	2011	2012	2013	2014
	<i>(€ million)</i>			
Assets of banks	2,809.7	2,808.3	2,959.2	3,107.3
Total gross loans ⁽¹⁾	1,955.8	1,862.5	2,441.8	2,460.2
Corporate gross loans (state companies, private companies, entrepreneurs) ⁽²⁾	987.7	944.1	976.2	927.1
Households gross loans ⁽³⁾	833.7	809.1	881.3	895.4
Total deposits	1,817.1	1,980.7	2,118.2	2,294.9
Corporate deposits	533.0	588.0	592.7	700.5
Households deposits	1,033.4	1,146.8	1,237.5	1,305.9
Allocated mandatory reserve requirements	117.9	167.0	227.5	214.1
Loan to deposit ratio (%)	107.6	94.0	105.8	99.2

Source: Central Bank of Montenegro

Notes:

⁽¹⁾ From 1 January 2013, this category includes deposit accounts held at other depositary institutions as well as other claims and interests and accruals. This category has been renamed "gross loans and other claims" from 1 January 2013 and includes impairments for loans and other claims.

⁽²⁾ The data for 2013 represents part of "gross loans and other claims" and refers to categories of state companies, private companies and entrepreneurs.

⁽³⁾ The data for 2013 represents part of "gross loans and other claims" and refers to household categories including credit cards.

The following table sets out the average of available liquid funds and payments made by banks for the years 2011 to 2013 and for the eleven months ended 30 November 2014.

	2011	2012	2013	2014 ⁽¹⁾
	<i>(€ thousand)</i>			
Available liquid bank funds (average)	445,450	381,956	504,637	598,930

Source: Central Bank of Montenegro

Notes:

⁽¹⁾ Average for the eleven months ended 30 November 2014.

Total assets of the Montenegrin banking sector stood at €3,107.3 million at the end of November 2014. Deposits have been growing steadily since 2010, and at the end of 2013 they reached €2,118.2 million suggesting a higher degree of confidence in the banking system. Total deposits as at 30 November 2014 amounted to €2,294.9 million, which is an increase of 8.3 per cent. as compared to 31 December 2013. The share of retail deposits amounted to 56.9 per cent. while the share of corporate deposits amounted to 30.5 per cent., each as at 30 November 2014. The share of state deposits was 5.0 per cent. as at 30 November 2014.

During 2013, total loans increased as a result of changes in calculation and presentation methodology due to the regulatory amendments that came into effect on 1 January 2013. These amendments principally included the mandatory application of International Accounting Standards to banks based in Montenegro. Total loans as at 31 December 2013 amounted to €2,441.8 million. During the 2013, there were a total of €807.6 million new loans approved, which represented an increase of 14.9 per cent. as compared to 2012. Total loans as at 30 November 2014 amounted to €2,460.2 million, which represents an increase of 0.8 per cent. as compared to 31 December 2013. During the eleven months ended 30 November 2014, a total of €661 million of new loans was approved, which represents a decrease of 4.6 per cent. as compared to the same period in 2013. These new loans are broken down as follows: 54 per cent. represented corporate loans (as compared to 44 per cent. in 2013), 36.4 per cent. represented retail loans (as compared to 34.6 per cent. in 2013) and 1.8 per cent. represented loans issued to the Government (as compared to 11.1 per cent. in 2013).

Total equity as at 31 December 2013 amounted to €397.8 million, which represented an increase of 37.8 per cent. as compared to 31 December 2012, principally as a result of implementation of IAS 39 (as a result of which from 1 January 2013, regulatory reserves and impairments are treated as capital reserves and therefore represent part of equity). Total equity as at 30 November 2014 amounted to €444.4 million, which represented an increase of 11.7 per cent. as compared to 31 December 2013.

Loan Exposure

The following table sets out certain statistics relating to total outstanding loans and non-performing loans ("NPLs") of Montenegrin banks as at 31 December 2011 to 2013 and as at 30 November 2014.

	As at 31 December			As at 30 November	
	2011	2012	2013	2013	2014
NPLs ⁽¹⁾ (€ million).....	303.8	327.8	448.7	460.9	419.6
Total outstanding loans ⁽²⁾ (€ million).....	1,955.8	1,862.5	2,441.8	2,504.5	2,460.2
NPLs/total loans and other claims (%).....	15.5	17.6	18.4	18.4	17.06
Reserves for loan losses/total loans (%).....	5.1	7.1	9.0	7.9	8.1
NPL coverage ratio ⁽³⁾	32.8	40.2	44.7	39.95	44.03
Equity/net loans (%).....	16.4	16.7	17.8	18.21	19.53
Capital adequacy ratio.....	16.5	14.7	14.4	14.99 ⁽⁴⁾	16.21 ⁽⁵⁾

Source: Central Bank of Montenegro

Notes:

- ⁽¹⁾ From 1 January 2013, loans and other claims classified in category "E" (written-off loans and other claims/receivables) under IAS 39 have been transferred from off-balance sheet records into the balance sheet, under the term NPLs (without deduction of impairments).
- ⁽²⁾ From 1 January 2013, this category includes deposit accounts held at other depositary institutions as well as other claims and interests and accruals. This category has been renamed "gross loans and other claims" from 1 January 2013 and includes impairments for loans and other claims.
- ⁽³⁾ NPL coverage ratio is the ratio of reserves for loan losses to NPLs. Collateral held in bank books has not been included in calculation of this ratio.
- ⁽⁴⁾ Capital adequacy ratio for the third quarter of 2013.
- ⁽⁵⁾ Capital adequacy ratio for the third quarter of 2014.

From the end of 2008 through 2012, total outstanding loans gradually declined as a consequence of decreased lending activities of Montenegrin banks as a result of the global financial and economic crisis in 2008 and 2009 and the adoption of more conservative credit policies by the banks. At the end of December 2012, total loans were €1,862.5 million, representing a decrease of 4.8 per cent. compared to the end of 2011. However, the proportion of NPLs as a percentage of total loans rose to 17.6 per cent. at the end of 2012 from 15.5 per cent. at the end of 2011. In 2013, NPLs to total loans rose further to 18.4 per cent. As at 31 December 2013, the total amount of NPLs rose to €448.7 million as a result of the implementation of IAS in Montenegro. From 1 January 2013, loans and other claims classified in category "E" (written-off loans and other claims/receivables) under IAS 39 have been transferred from off-balance sheet records into the balance sheet, under the term NPLs (without deduction of impairments). As of March 2013, partly as a result of the implementation of IAS 39, NPLs rose to 19.4 per cent., then subsequently decreased to 18.4 per cent. by 31 December 2013. As at 30 September 2014, corporates made up 37.5 per cent. of loans and 73 per cent. of NPLs, whilst individuals comprised 36.2 per cent. of loans and 23.6 per cent. of NPLs.

As at 30 November 2014, the total amount of NPLs decreased to €419.6 million from €448.7 million as at 31 December 2013. The proportion of NPLs as a percentage of total loans decreased to 17.1 per cent. as at 30 November 2014 from 18.4 per cent. as at 31 December 2013.

Although the overall proportion of NPLs increased in 2012 and 2013, Montenegrin banks remain adequately capitalised. The Central Bank continues to monitor closely the level of overall NPLs in the Montenegrin banking system. The World Bank Vienna Financial Sector Advisory Centre ("FinSAC") and Montenegro's financial authorities have been collaborating since July 2012 to identify measures that will facilitate the reduction of the NPL stock in the Montenegrin banking sector and the resumption of lending activities to viable companies and households. The main focus of the work has been to facilitate the voluntary work-out of non-performing and other impaired loans on a multi-creditor basis. A voluntary financial restructuring law has been prepared to support this initiative and is expected to be enacted by Parliament by the first quarter of 2015, as part of Montenegro's NPL reduction initiative, also known as the "Podgorica Approach".

NPLs are defined as (i) loans past due for more than 90 days and (ii) overdue loans that meet certain other qualitative criteria relating to the quality of the collateral, financial condition of the borrower and other matters. As at 30 November 2014, the ratio of loans past due for more than 90 days to total loans and other claims was 13.7 per cent (14.1 per cent. as at 31 December 2013).

In recent years, some of the foreign-owned banks operating in Montenegro have sold and transferred some of their assets (including NPLs) to parent banks or factoring companies, as a result of which such assets are no longer recorded in the Montenegrin banking sector, which may result in the actual levels of NPLs in Montenegro being higher than the reported figures. Approximately €672 million worth of assets has been sold by banks since 2009. These asset sales significantly contributed to the decreases in the volumes of outstanding total loans and NPLs. Approximately half of such asset sales by value took place during 2011, which was the principal reason for the decrease in total loans and NPLs from 31 December 2010 to 31 December 2011 and the decrease in the ratio of NPLs to total loans from 21.0 per cent. as at 31 December 2010 to 15.5 per cent. as at 31 December 2011. During 2012 and 2013, banks have conducted further asset sales in the amounts of approximately €50 million and €70 million, respectively. During 2014, banks have conducted asset sales in the amount of €2.1 million. See *"Risk Factors—Risk Factors Relating to Montenegro—Further asset quality deterioration could cause Montenegrin banks to be not in compliance with regulatory requirements, including capital adequacy requirements, and/or to reduce their lending activities, which could have an adverse effect on growth prospects for the Montenegrin economy"*.

The solvency ratio maintained by a bank must be at least 10 per cent. There is no prescribed solvency ratio in relation to tier I capital. Regulatory capital of the bank (own funds) consists of the regulatory capital and the supplementary capital. The regulatory and the supplementary capital and the deduction items from the capital of the bank are calculated in accordance with the Decision on Capital Adequacy, which seeks to track the relevant provisions of the Directive 2006/48EC and the Directive 2006/49EC. However, new legislation to align the current banking supervision system with the requirements of Basel III and the CRD IV is currently being developed and expected to be adopted by the end of 2016 and implemented in 2018.

As part of the EU accession process, Montenegro is making preparations in relation to the opening of negotiations for Chapter 9 (*Financial Services*), which refers to banking sector operations. In the proposal document defining the negotiating position of Montenegro for Chapter 9, and which is expected to be adopted shortly by the authorised bodies of Montenegro, the compliance of the banking regulations with Basel III is being planned through the adoption of the new Law on Banks and the related by-law regulations. It is planned that the adoption of the new Law on Banks will take place by the end of 2015 and come into effect from 1 January 2018. For the first quarter of 2017, the adoption of the new Decision on Capital Adequacy is planned, and the adoption of other by-law acts is planned by the end of the second quarter of that year. All these decisions would become effective from 1 January 2018.

Stock Exchange

The NEX Montenegro and the Montenegro Stock Exchange A.D. were established in 2001 and 1993, respectively. The two exchanges merged on 31 December 2010 and with effect from 10 January 2011, a new united stock exchange has been operating in Montenegro (Montenegro Stock Exchange).

The following tables set forth the trading volume, number of transactions and certain other information relating to the Montenegrin stock exchanges for the period for 2012, 2013 and 2014.

	Year ended 31 December		
	2012	2013	2014
Volume (€ million) ⁽¹⁾	32.7	30.8	108.2
Number of transactions	7,203	6,447	6,285

Source: Security Commission and Montenegro Stock Exchange

	Year ended 31 December		
	2012	2013	2014
	(€ million)		
Market capitalisation — Montenegro Stock Exchange	2,902.8	2,839.0	2,960.7
Monex 20 Index ⁽¹⁾	9,849.9	9,850.2	11,356.1
Monex PIF Index ⁽¹⁾	3,441.8	3,412.2	3,037.4

Source: Montenegro Stock Exchange

Notes:

⁽¹⁾ The Montenegro Stock Exchange currently uses two indices, MONEX 20 Index and MONEX PIF Index, which are the successors of all indices previously used at the Montenegrin stock exchanges.

PUBLIC FINANCE

Overview

The Government is focused on the importance of conservative fiscal policies in order to foster the macroeconomic stability of the country given that (i) as a result of the adoption of the euro the Government does not have a wide range of monetary tools which can be used and (ii) Montenegro is a small, developing and not fully diversified economy.

Montenegro's public finances (general Government budget) consist of (i) the central Government budget, which includes five state funds (Fund for Pension and Disability Insurance, Fund for Health Insurance, Employment Office, Compensation Fund and Employment Fund) and (ii) municipal budgets.

In 2012, public finances were adversely affected by challenging economic environments in the Euro zone and in Montenegro, adverse weather conditions in Montenegro at the beginning of the year and payments under state guarantees in relation to financial obligations of the aluminium producer KAP. As a result of these and other factors, actual central Government revenues were lower than budgeted and than in 2011. The data indicates that the central budget has recorded the lowest nominal level of collection in 2012 since 2008. Even though, despite numerous pressures, central Government expenditures remained generally stable in 2012 as compared to 2011 (although 4.5 per cent. higher than budgeted), the budget deficit reached 6.2 per cent. of GDP in 2012. In light of these developments, the Government's priorities for 2013 were to increase Government revenues and to reduce Government expenditures in order to stabilise the deficit, which would also reduce the need for Government borrowing.

To increase Government revenues, following Parliamentary elections in 2012 and the formation of a new Government, a set of interim fiscal measures was introduced at the beginning of 2013 (see "*2013 Budget*" for additional information), which contributed to the increase in Government revenues in 2013. Most of these measures will remain in effect in 2015. Furthermore, an increase in the upper VAT rate from 17 per cent. to 19 per cent. took effect from 1 July 2013. According to the results of an analysis prepared by the World Bank, this increase is not expected to have long-term adverse effects on the economy of Montenegro or its investment environment, particularly in light of the fact that the VAT rate of 19 per cent. is still competitive as compared to other European countries. As a result of the foregoing measures, in 2014, the preliminary general Government deficit was €103.5 million, or 3.0 per cent. of GDP. In 2014, the Ministry of Finance introduced a set of supplementary additional fiscal measures aimed at further strengthening public finances alongside the 2013 measures (see "*2014 Budget*" for additional information).

The Government's priorities for 2015 and the medium term are to continue to increase Government revenues in order to eventually balance the budget and eliminate the deficit, which would also reduce the need for Government borrowing. To that effect, the Government's main medium term fiscal policy objectives are to create conditions for sustainable economic growth and to develop a more stable and sustainable public finances system. To achieve these objectives, the Government has adopted a policy based on the following principles and targets for the 2015-2017 period:

1. to continue the implementation of austerity measures with a view to reducing central Government expenditures from 42.4 per cent. of GDP in 2012 to 35.3 per cent. of GDP in 2017 and to direct the resulting savings to large capital projects in order to foster economic growth and development, while providing adequate protection to more vulnerable categories of population;
2. to implement on an expedited basis structural reforms in order to reduce the pressure on Government spending over the long term;
3. to attract investments that will contribute to the growth of the economy, with a focus on implementation of strategic investments;
4. to continue implementation of measures aimed at reducing the size of the "grey economy", while developing legislative framework with a view to improve the business environment and to sanction and adopt penalties for illegal market practices;
5. to discontinue issuing state guarantees, except for infrastructure projects;

6. to generate a surplus in the primary budget (total budget without the interest payments component) over a medium term; and
7. to harmonise the public finances legislation with the EU *acquis communautaire*.

New and continued reform processes are planned for the medium term, including the continued public administration reform, which seeks to increase the productivity and reduce costs of the public sector. Structural reforms in the areas of the pension system, healthcare, education and labour market are expected to provide a backdrop for developing a more stable public finances system and a competitive economic environment. Improving the competitiveness of the Montenegrin business environment is one of the key Government priorities and is also one of the requirements for the EU accession process. In light of the size and nature of the Montenegrin economy, the Government intends to continue to introduce measures aimed at attracting FDI.

The following table sets out a summary of the actual general Government budget revenues and expenditures (which consist of the revenues and expenditures of the central Government budget and the municipal budgets) for the years 2012 and 2013, and those provided for in the Budget Laws for 2012 and 2013. No such data is available for 2014 as at the date of this Prospectus.

	2012 Budget Law ⁽¹⁾		2012 Budget Execution ⁽²⁾		2013 Budget Law ⁽³⁾		2013 Budget Execution	
	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)
Revenues	1,282.23	38.41	1,295.42	41.14	1,294.10	37.05	1,431.90	43.04
Tax revenues	1,155.90	34.63	1,148.24	36.46	1,157.44	33.14	1,262.01	40.08
Non-tax revenues	126.33	3.78	162.7	5.17	136.65	3.91	169.89	5.39
Expenditures	(1,385.36)	(41.50)	(1,489.48)	(47.30)	(1,375.77)	(39.39)	(1,608.41)	48.34
Non-capital expenditures	(1,271.72)	(38.10)	(1,365.12)	(43.35)	(1,271.11)	(36.39)	(1,484.02)	44.60
Capital expenditures ...	(113.65)	(3.40)	(124.36)	(3.95)	(104.65)	(3.00)	(124.39)	3.74
Financial balance	(103.13)	(3.09)	(194.07)	(6.16)	(81.67)	(2.35)	(176.51)	(5.31)

Source: Ministry of Finance

Notes:

⁽¹⁾ Takes into account the 2012 budget revision undertaken in April 2012.

⁽²⁾ The figures for the 2012 Budget Execution are based on the 2012 Budget Execution Law.

⁽³⁾ Does not take into account the impact of interim fiscal measures introduced at the beginning of 2013. See "—2013 Budget" for more details.

The following table sets out a summary of the actual central Government budget revenues and expenditures for the years 2012 and 2013 and those provided for in the Budget Laws for 2012 and 2013. No such data is available for 2014 as at the date of this Prospectus.

	2012 Budget Law ⁽¹⁾		2012 Budget Execution ⁽²⁾		2013 Budget Law ⁽³⁾		2013 Budget Execution	
	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)
Revenues	1,150.06	36.74	1,126.03	35.76	1,169.80	33.49	1,243.53	37.38
Tax revenues	1,077.61	34.72	1,049.69	33.33	1,084.65	31.05	1,154.20	34.63
Direct taxes	481.84	15.52	509.97	16.19	518.55	14.85	536.193	16.07
Personal income tax	81.50	2.45	82.26	2.61	90.88	2.60	95.62	2.87
Corporate income tax ..	46.87	1.41	64.02	2.03	41.93	1.20	40.64	1.22
Tax on property	1.47	0.04	1.44	0.05	1.52	0.04	1.44	0.04
Social security contributions	351.99	10.59	362.25	11.50	384.22	11.00	398.49	11.98
Indirect taxes	595.77	19.19	535.45	17.00	561.68	16.08	612.91	18.37
Valued added taxes	381.22	11.47	354.71	11.26	373.05	10.68	429.20	12.90
Excise tax	163.06	4.91	151.77	4.82	157.45	4.51	161.45	4.85
Customs duties	47.34	1.42	28.97	0.92	31.19	0.89	22.27	0.67
Other taxes	4.15	0.12	4.28	0.14	4.41	0.13	5.09	0.15
Non-tax revenues	72.45	2.33	76.36	2.42	85.15	2.44	89.34	2.69
Expenditures	(1,260.18)	(37.91)	(1,333.88)	(42.36)	(1,257.12)	(35.99)	(1,459.23)	(43.86)
Non-capital expenditures	(1,183.53)	(35.61)	(1,257.84)	(39.94)	(1,191.48)	(34.11)	(1,382.01)	(41.54)

	2012 Budget Law ⁽¹⁾		2012 Budget Execution ⁽²⁾		2013 Budget Law ⁽³⁾		2013 Budget Execution	
	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)
Capital expenditures ...	(76.65)	(2.31)	(76.04)	(2.41)	(65.64)	(1.88)	(77.7922)	(2.32)
Financial balance	(110.13)	(3.31)	(207.82)	(6.60)	(87.32)	(2.50)	(215.70)	(6.48)

Source: Ministry of Finance

Notes:

⁽¹⁾ Takes into account the 2012 budget revision undertaken in April 2012.

⁽²⁾ The figures for the 2012 Budget Execution are based on the 2012 Budget Execution Law.

⁽³⁾ Does not take into account the impact of interim fiscal measures introduced at the beginning of 2013. See "—2013 Budget" for more details.

The following table sets out a summary of the actual municipal Government budget revenues and expenditures for the years 2012 and 2013 and those provided for in the Budget Laws for 2012 and 2013. No such data is available for 2014 as at the date of this Prospectus.

	2012 Approved Municipal Budget ⁽¹⁾		2012 Budget Execution ⁽²⁾		2013 Approved Municipal Budget ⁽³⁾		2013 Budget Execution	
	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)	(€ million)	(% GDP)
Revenues	132.18	4.20	184.96	5.87	137.30	3.79	188.37	5.66
Tax revenues	78.30	2.49	98.55	3.13	72.79	2.08	107.82	3.24
Direct taxes	40.75	1.29	40.39	1.28	37.86	1.08	41.22	1.31
Personal income tax	29.75	0.95	27.42	0.87	24.16	0.69	28.53	0.86
Tax on property sales ..	11.00	0.35	12.97	0.41	13.70	0.39	12.69	0.38
Local taxes	37.55	1.19	58.15	1.85	34.94	1.00	66.60	2.00
Non-tax revenues	41.87	1.33	72.60	2.30	48.85	1.40	64.22	2.04
Other revenues	12.01	0.38	13.80	0.44	12.65	0.36	16.33	0.49
Expenditures	(126.65)	(4.02)	(160.31)	(5.09)	(118.90)	(3.40)	(15389.49)	4.36
Non-capital expenditures	(89.65)	(2.85)	(111.99)	(3.56)	(88.90)	(2.55)	(106.72)	3.21
Capital expenditures ...	(37.00)	(1.18)	(48.32)	(1.53)	(30.00)	(0.86)	(47.17)	1.42
Transfers from central budget	0.85	0.03	0.85	0.03	0.25	0.01	4.71	0.14
Financial balance	6.37	0.2	24.62	0.78	15.65	0.45	39.19	1.18

Source: Ministry of Finance

Notes:

⁽¹⁾ Takes into account the 2012 budget revision undertaken in April 2012.

⁽²⁾ The figures for the 2012 Budget Execution are based on the 2012 Budget Execution Law.

⁽³⁾ Does not take into account the impact of interim fiscal measures introduced at the beginning of 2013. See "—2013 Budget" for more details.

Budget Process and Municipal Governments

The Budget Law regulates, among other things, adoption of the budget, budget management, preparation and planning of the budget, execution of the central and municipal budgets and execution of loans and guarantees. The Budget Law for each fiscal year starting on 1 January and ending on 31 December is adopted by the Parliament. Each municipal budget is adopted by the relevant municipal council or assembly. Planning of the central budget is based on the economic growth projections, macroeconomic stability, economic policies, laws and other regulations. In 2014, the Parliament passed the Budget and Fiscal Responsibility Law, which introduced a medium term budgetary framework and fiscal rules for adopting budgets.

Based on the Government's Medium-Term Macroeconomic Guidelines, the Ministry of Finance issues instructions for preparation of the budgets of the various government departments and budgets of municipal governments for the forthcoming fiscal year. If, during the process of negotiating the draft budget law, any disagreement arises between the Ministry of Finance and the various government departments, the Ministry of Finance prepares the final draft for consideration by the Government. The relevant competent body of each municipality prepares the draft of the municipal budget and submits it for consideration and comment by the Ministry of Finance prior to sending it to the local municipal assembly.

The draft Budget Law is required to be submitted to the Parliament and the draft municipal budget is required to be submitted to the local municipal assembly, in each case by the end of November in each year. At the same time as it receives the draft Budget Law, the Parliament is presented with the proposed financial plans and activities of the certain independent regulatory bodies, including, among other things, the Central Bank, telecommunications agencies, air traffic agencies and pharmaceutical agencies.

The rights and obligations of the municipalities are set out in the Municipal Government Laws. The Law on Municipal Government Finance regulates the rights and obligations of the municipal governments regarding financing. This law defines sources of financing of the units of municipal self-government and sets out the structure of the distribution of common revenues between the central budget and the municipal Government. In addition this law determines the conditions for use of the Equalisation Fund, as well as the conditional subsidies from the budget. According to the law, municipalities are prohibited from borrowing to the extent their overall debt service would exceed 10 per cent. of their current revenues in the previous fiscal year and they are obliged to obtain central Government approval for each new borrowing even if within this limit.

2012 Budget Execution

As discussed above, 2012 was one of the most challenging years for the country's public finances. A downturn in economic activity in the Euro zone and in Montenegro and adverse weather conditions throughout the country at the beginning of the year resulted in the Montenegrin GDP contracting by 2.5 per cent. in 2012, which, in turn, had an adverse impact on central Government revenues. At the same time, payments under state guarantees in relation to financial obligations of the aluminium producer KAP resulted in higher central Government expenditures. As a result, the central Government budget deficit increased from €189.7 million in 2011 to €195.6 million in 2012.

Based on 2012 Execution Law, general Government revenues in 2012 were €1,299.9 million, or 41.3 per cent. of GDP, which was 1.2 per cent. higher than in 2011 and 1.4 per cent. higher than budgeted. This was mainly due to higher municipal Government revenues than in 2011 and than budgeted in 2012, partially offset by lower central Government revenues. Higher municipal Government revenues principally reflected an increase in revenues from municipal taxes and from fees for municipal land development. The central Government revenues in 2012 recorded the lowest nominal level of collection since the onset of the global financial and economic crisis at the end of 2008. Adverse weather conditions at the beginning of 2012 resulted in weak economic performance in the first quarter and negatively impacted the economic activity for the rest of the year. As a result, Montenegrin GDP contracted by 2.5 per cent. in 2012. Reflecting these economic developments, actual central Government revenues in 2012 were €1,121.0 million, or 35.6 per cent. of GDP, which was 0.7 per cent. lower than in 2011, 7.5 per cent. less than was budgeted under the 2012 Budget Law and 2.6 per cent. lower than projected under the 2012 budget revision undertaken in April 2012 (the "**2012 Budget Revision**"). The foregoing trends were primarily due to almost 10 per cent. decline in VAT revenues as compared to 2011 and a decrease in revenues from taxes on international trade and transactions due to the liberalisation of the international trade market and continued reduction of custom duty rates. This was partially offset by a 77.3 per cent. increase in corporate income tax revenues as compared to 2011 (mainly due to certain measures introduced under the 2012 Budget Revision) and higher excise tax revenues (primarily due to new fees being introduced).

Actual general Government expenditures in 2012 amounted to €1493.3 million, or 47.4 per cent. of GDP, and were 2.2 per cent. higher than in 2011 and 7.5 per cent. higher than budgeted, which reflected higher central Government expenditures as well as higher expenditures by the municipal Governments. The central Government expenditures amounted to €1,333.9 million, or 42.4 per cent. of GDP, in 2012, which was higher than 1.1 per cent. compared to 2011, 6.2 per cent. higher than projected under the 2012 Budget Law and 4.5 per cent. higher than forecasted under the 2012 Budget Revision. This was principally due to payments made under state guarantees in relation to financial obligations of the aluminium producer KAP (see "*The Economy—Principal Sectors of the Economy—Industrial production—Metals manufacturing—Restructuring of the indebtedness of KAP and the Steel Mill*" for more information) as well as higher payments of interest and repayment of principal on Government debt (mainly due to repayment of principal to Montenegrin residents on internal debt), expenditures on social protection entitlements, expenditures on pension and disability insurance entitlements, subsidies and expenditures on materials and services. As a result of the adoption of the 2012 Budget Execution Law and suggestions given by State Audit Institutions, additional expenditures in the amount of €17 million, were recorded from debt repayment to capital budget, which resulted in corresponding increases in both

expenditures and the deficit. This was partially offset by lower public sector wages and severance payments, transfers to public institutions, other public sector related expenditures and capital budget expenditures.

As a result of the foregoing, the actual general Government deficit in 2012 was €194.1 million as compared to €176.2 million in 2011, while the actual central Government deficit in 2012 was €207.8 million as compared to €189.7 million in 2011.

2013 Budget

Two macroeconomic scenarios were developed under the Pre-Accession Economic Programme ("**PEP**") for 2012-2015. Both scenarios envisaged a GDP growth of 0.5 per cent. in 2012. However, as a result of the adverse economic developments that took place after the PEP was adopted, Montenegrin GDP contracted by 2.5 per cent. in 2012 in real terms. The Government believes that the impact of the factors that caused the country's GDP to contract in 2012 was limited to that year, as some of these factors were one-off events (such as adverse weather conditions in Montenegro at the beginning of the year and payments under state guarantees in relation to financial obligations of the aluminium producer KAP). In 2013, the base scenario under the PEP envisaged GDP growth of 2.5 per cent. in Montenegro in real terms. The Montenegrin economy recorded a GDP growth of 3.3 per cent. in 2013 in real terms.

As a result of the actual 2012 GDP deviating from the PEP forecasts for that year, macroeconomic projections for 2013 and the medium term were revised, following which fiscal projections for 2013 and the medium term were revised as well. After the 2012 Budget Revision, budget projections in the PEP were revised in September 2012. However, actual 2012 budget revenues were lower than projected under the 2012 Budget Revision and, consequently, lower than estimated under the PEP. Lower budget revenues in 2012 prompted the revision of fiscal projections for 2013-2015, including the 2013 budget. As a result, at the beginning of 2013, the Ministry of Finance adopted a set of fiscal measures (the "**2013 Measures**") aimed at strengthening public finances, which include the following:

1. introduction of a "crisis" personal income tax, which increased the tax rate from 9 per cent. to 15 per cent. for wages in excess of an average gross monthly wage of €720;
2. implementation of measures to reduce the size of the "grey economy", while increasing penalties for breaches of related laws and regulations;
3. temporary suspension of annual pension adjustments starting from 2013;
4. introduction/extension of certain fees relating to SIM cards, smoking zones, electricity meters and cable television until the end of 2013;
5. an increase in the minimum wage from 30 per cent. to 40 per cent. of the average wage;
6. optimisation of the structure of managing boards in public enterprises, institutions, funds and other business organisations where the Government is a majority owner with a view to reduce expenditure. A review of compensation levels of such managing boards was performed and remuneration to chairpersons and members of managing boards was reduced, with ceiling levels imposed in certain cases;
7. optimisation of certain regulatory agencies, including the alignment of wages with those of civil servants and state employees and reduction in discretionary spending. Amendments to the relevant legislation enabled the excess revenues of the regulatory agencies to be transferred to the budget; and
8. reducing the number of the Government bodies and remuneration to their members.

Most of these measures have been extended in 2014, and after a detailed analysis, a possible extension of these measures may be considered for subsequent periods.

The main objective of economic policy in 2013 was the stabilisation and consolidation of public finances with a view to reducing the budget deficit, public debt and the size of the "grey economy", while creating the conditions for an increase in foreign and domestic investments and the continuation of the financial sector stabilisation. In addition, the public administration reform seeks to reduce the number of public

sector employees. The need for fiscal consolidation and increased competitiveness of the economy is also one of the priorities in the European integration process. The introduction of additional fiscal rules and the creation of an institutional framework for their consistent application with a view to ensure an efficient management of the public finances are also viewed as high priorities. Other priorities also include increasing the flexibility and mobility of the labour market and facilitating requirements for obtaining building permits, which is in line with the recommendations of the World Bank. Improvement of the tax system is expected to continue through the harmonisation of the law on excise duties with EU *acquis communautaire*.

The main objective on the public revenue side is to improve revenue collection, including by reducing the size of the "grey economy". An action plan to combat the "grey economy" was drafted and fines and penalties for illegal business practices were increased, while a more developed legislative framework aimed at combating the "grey economy" is being prepared. Reducing the size of the "grey economy" is also expected to achieve more fair competition among market participants.

Although many neighbouring countries increased their tax rates, in particular income tax and VAT rates, in light of deteriorating economic indicators in 2011-2012, the Ministry of Finance of Montenegro did not raise taxes during that period and initially based its tax policy in 2012 and 2013 on the introduction of certain fees on products categorized as luxury. Despite the foregoing, as a result of deteriorating public finances in 2012, the Government made a decision to introduce a "crisis" personal income tax as part of the 2013 Measures, which increased the tax rate from 9 per cent. to 15 per cent. for wages in excess of an average gross monthly wage of €720. In addition to the 2013 Measures, the Government increased the VAT rate from 17 per cent. to 19 per cent. starting from 1 July 2013. The VAT rate increase was considered as a last resort measure. A set of analyses was undertaken prior to the increase based on the recommendations from various international financial institutions (including the IMF and the World Bank), the results of which showed that although the increase would lead to a reduction in disposable income and thus a reduction in consumption, it is expected that, as a result of the increase, Government VAT revenue would increase by approximately 8-9 per cent. per annum.

As a result of the implementation of the 2013 Measures as well as a more favourable economic environment and weather conditions, general Government revenues in 2013 amounted to €1,431.9 million and were 10.5 per cent. higher than in 2012. In 2013, central Government revenues amounted to €1,143.5 million and were 10.4 per cent. higher than in 2012, principally as a result of the implementation of anti-grey economy measures and the increase in the VAT rate as discussed above. An increase in the VAT collection was particularly pronounced, as the actual collected VAT exceeded the budgeted collection amount in 2013 and was 21.0 per cent. higher than in 2012..

Following the implementation of the 2013 Measures, general Government expenditures were €1,608.4 million in 2013, or 48.3 per cent. of GDP, of which 44.6 per cent. of GDP relates to current expenditures and 3.7 per cent. of GDP relates to capital expenditures. In 2013, general Government expenditures were 8.0 per cent. higher than in 2012.

The general Government deficit was initially projected to be €81.7 million in 2013. However, the actual general Government deficit was €176.5 million, or 5.3 per cent. of GDP, principally due to the activation of Government guarantees for KAP, partially offset by the impact of the 2013 Measures. The general Government primary balance was in the amount of €105.2 million, or 3.2 per cent. of GDP, in 2013, and that debt repayments (including interest and principal) in 2013 were approximately €286.0 million. The central Government budget deficit in 2013 is €215.7 million, or 6.5 per cent. of GDP, which is approximately €128.4 million higher than the amount initially planned as a result of the guarantees paid by the Government as a result of KAP's debt restructuring, see "*The Economy – Restructuring of the indebtedness of KAP and the Steel Mill*" for additional information.

2014 Budget

According to the budget law for 2014 (the "**2014 Budget Law**"), central Government budget revenues were preliminarily €1,350.9 million, or 39.8 per cent. of preliminary GDP. This represents a 8.6 per cent. increase as compared to the actual 2013 central Government revenues. General Government budget revenues in 2014 are preliminarily estimated to be €1,425.9 million, or 40.6 per cent. of preliminary GDP, which is 0.4 per cent. higher than the actual 2013 general Government revenues. For 2014, central Government data and general Government data were arrived at using different methodologies, and are thus not fully comparable.

The central Government expenditures in 2014 were initially projected to be €1,327.1 million, or 37.7 per cent. of projected GDP. The actual central Government expenditures in 2014 were €1,454.4 million, or 42.9 per cent. of preliminary GDP. While central Government expenditures were 6.3 per cent. higher than anticipated by the 2014 Budget, they represented a 0.3 per cent. decrease as compared to 2013, mainly due to a net increase in liabilities in 2013 but not in 2014. According to the Government's projections, the general Government expenditures in 2014 are approximately €1,515.1 million, or 44.6 per cent. of preliminary GDP, which is 5.8 per cent. lower than the actual 2013 general Government expenditures. However, the 2014 figures are not directly comparable to the 2013 figures, because the 2013 expenditures included the repayment of central budget arrears, which were not included in the 2014 expenditures.

The central Government budget deficit in 2014 was initially projected to be approximately €59.1 million, or 2.0 per cent. of projected GDP. According to preliminary data, the central Government budget deficit was €103.5 million, or 3 per cent. of projected GDP. The general Government budget deficit in 2014 was initially projected to be €46.0 million, or 1.3 per cent. of projected GDP. According to the Government's projections, the general Government budget deficit is €22.3 million, or 0.7 per cent. of projected GDP.

In 2014, the Ministry of Finance introduced a set of supplementary fiscal measures aimed at further strengthening public finances alongside the 2013 Measures, which include the following:

1. introduction of an option of a one-time repayment of tax debt principal, allowing tax debtors to repay once the principal of their tax debt, with the interest written-off, for any tax liabilities from prior periods;
2. introduction of a measure available to tax debtors whose tax debt is in excess of €100,000 which allows them to repay their tax debt using their real estate assets (based on the appraised value of such assets and subject to the agreement of the tax authorities);
3. a planned increase in taxes in certain categories of real estate transactions, such as property not used or placed in service (for example, secondary homes) or buildings constructed not in compliance with the applicable permits and authorisations; and
4. certain measures aimed at improving the current system of public procurement.

2015 Budget

According to the budget law for 2015 (the "**2015 Budget Law**"), central Government budget revenues are projected to be approximately €1,329.2 million, or 37.4 per cent. of projected GDP, which is expected to grow by 3.5 per cent. in real terms in 2015. This would represent a 1.6 per cent. decrease as compared to the initially projected 2014 central Government revenues. General Government budget revenues in 2015 are projected to be approximately €1,520.8 million, or 42.9 per cent. of projected GDP, which is 6.2 per cent. lower than the initially projected 2014 general Government revenues. The projections for Government revenues were made based on the projected rates of economic recovery and inflation.

In accordance with the 2015 Budget Law, central Government expenditures in 2015 are planned to be approximately €1,565.0 million, or 44.1 per cent. of projected GDP, which would represent a 7.6 per cent. increase as compared to the initially projected 2014 central Government expenditures. General Government expenditures are projected to be approximately €1,709.4 million, or 48.2 per cent. of projected GDP, which is 12.8 per cent. higher than the initially projected 2014 general Government expenditures.

The central Government budget deficit in 2015 is projected to be approximately €235.8 million, or 6.7 per cent. of projected GDP. The general Government budget deficit in 2015 is projected to be €188.6 million, or 5.3 per cent. of projected GDP. The Government intends to fund the deficit and principal repayments in 2015 using the proceeds of the issuance of the Notes, as well as drawing down on the loan from the Chinese EXIM Bank. In 2015, to fund the construction of the Bar-Belgrade Motorway, the Government expects to draw down approximately \$190 million from the loan from Chinese EXIM Bank.

Forecasts for 2016 and 2017

Based on the assumption that there will be a moderate growth in the sectors of tourism, investments and electricity generation, the Ministry of Finance forecasts that the Montenegrin GDP will grow by 3.8 per cent. in 2016 and 4.9 per cent. in 2017, in each case in real terms.

The following tables set out a summary of the forecast general, central and municipal Government budgets (revenues and expenditures) for the years 2016 and 2017. These are based on a number of economic, fiscal and other assumptions. The actual results may differ materially from these projections. In particular, the following figures do not reflect the impact of the €809 million road development project planned to be constructed during 2015-2018 and relating to a part of the motorway project between Bar and Belgrade (see "*The Economy—Principal Sectors of the Economy—Construction—Bar-Belgrade Motorway*" for additional information), namely the effect of the 15 per cent. of the project cost financed by the State of Montenegro through its capital budget and any payments of interest on the loan from EXIM Bank which is expected to cover the remaining 85 per cent. of the cost (the loan is expected to have a 6-year grace period during which no principal is payable). It is expected that as a result of this project and other factors, the annual general Government fiscal budget deficit will be approximately between 4 and 6 per cent. in the near term, using the new methodology introduced by the Budget and Fiscal Responsibility Law, which was not used when calculating 2013 and 2014 general Government budget deficits.

	Forecast 2016		Forecast 2017	
	(€ million)	(% GDP)	(€ million)	(% GDP)
General Government budget revenues	1,547.8	41.4	1,596.7	40.3
Tax revenues.....	1,386.7	37.1	1,431.0	36.1
Non-tax revenues.....	161.1	4.3	165.7	4.2
General Government budget expenditures	(1,733.7)	(46.4)	(1,754.5)	(44.3)
Non capital expenditure.....	(1,400.1)	(37.5)	(1,415.6)	(35.7)
Capital expenditure.....	(333.6)	(8.9)	(338.9)	(8.6)
Financial balance	(185.9)	(5.0)	(157.8)	(4.0)

Source: Ministry of Finance

	Forecast 2016		Forecast 2017	
	(€ million)	(% GDP)	(€ million)	(% GDP)
Central Government budget revenues	1,352.4	36.2	1,397.0	35.2
Tax revenues.....	1,271.4	34.0	1,313.4	33.1
Direct taxes.....	577.9	15.5	597.0	17.9
Personal income tax.....	100.6	2.7	103.9	2.6
Corporate income tax.....	47.8	1.3	49.4	1.2
Tax on property sales.....	1.6	0.0	1.6	0.0
Social security contribution.....	427.9	11.4	442.0	11.1
Indirect taxes.....	687.6	18.4	710.3	17.9
Valued added taxes.....	492.2	13.2	508.6	12.8
Excise tax.....	171.9	4.6	177.6	4.5
Customs duties.....	23.4	0.6	24.2	0.6
Other taxes.....	5.9	0.2	6.1	0.1
Non tax revenue.....	81.0	2.2	83.7	2.1
Central Government budget expenditures	(1,587.0)	(42.5)	(1,604.1)	(40.5)
Non capital expenditure.....	(1,293.4)	(34.6)	(1,305.2)	(32.9)
Capital expenditure.....	(293.6)	(7.9)	(298.9)	(7.5)
Financial balance	(234.6)	(6.3)	(207.1)	(5.2)

Source: Ministry of Finance

	Forecast 2016		Forecast 2017	
	(€ million)	(% of GDP)	(€ million)	(% of GDP)
Municipal Government budget revenues.....	195.4	5.2	199.7	5.0
Tax revenues.....	115.3	3.1	117.6	3.0
Direct taxes.....	47.3	1.3	48.3	1.2
Personal income tax.....	32.6	0.9	33.3	0.9
Tax on property sales.....	14.7	0.4	15.0	0.4
Local taxes.....	67.9	1.8	69.3	1.8
Non tax revenue.....	66.1	1.8	67.8	1.7
Other revenues.....	14.0	0.4	14.3	0.4
Municipal Government budget expenditures.....	(148.7)	(4.0)	152.4	3.8
Non capital expenditure.....	(108.7)	(2.9)	112.4	2.8

	Forecast 2016		Forecast 2017	
	<i>(€ million)</i>	<i>(% of GDP)</i>	<i>(€ million)</i>	<i>(% of GDP)</i>
Capital expenditure.....	(40.0)	(1.1)	40.0	1.0
Transfers from Central Budget.....	2.0	0.1	2.0	0.1
Financial balance	48.7	1.3	49.3	1.2

Source: Ministry of Finance

INDEBTEDNESS

Overview

The following table sets out Montenegro's outstanding state Government debt as at 31 December 2012, 2013 and 2014.

	As at 31 December		
	2012	2013	2014
Total debt (€ million).....	1,699.5	1,933.7	1,951.6
External (€ million).....	1,295.0	1,433.0	1,561.7
Domestic (€ million).....	404.5	500.7	389.8
Total debt (% of GDP).....	54.0	58.0	57.5
External (% of GDP).....	41.1	43.0	46.0
Domestic (% of GDP).....	12.9	15.0	11.5
GDP (€ million).....	3,148.9	3,335.9	3,393.0

Source: Ministry of Finance

In 2012, the World Bank issued a loan to Montenegro in the amount of €59.1 million, which was used to finance the budget deficit. In 2012, Montenegro also entered into two loan agreements with Credit Suisse in respect of loans in the amounts of €100 million and €150 million. The World Bank issued a guarantee in the amount of €60 million in connection with the €100 million loan, which was used to finance the budget deficit. Approximately €52 million of the €150 million loan was used to repay a prior loan from Credit Suisse, while the remaining €98 million was mainly used to finance the budget deficit. In 2012, Montenegro also entered into loan agreements with Erste Banka and Societe Generale Montenegro Bank in respect of loans in the amounts of €30 million and €10 million, respectively, which were used to finance the budget deficit. Proceeds from the Societe Generale loan were received in December 2012, while proceeds from the Erste Banka loan were received in 2013.

Indebtedness increased in 2013 as a result of the need to finance budget deficit, an increase in borrowings in order to repay existing debt and make payments in connection with Government guarantees, and the expenditure related to certain infrastructure projects.

In 2014, the Ministry of Finance issued domestic bonds in the aggregate amount of €43 million and bonds in the international market in the aggregate amount of €280 million.

The Government is in the process of implementing a €809 million road development project planned to be constructed during 2015-2018 and relating to a part of the motorway project between Bar and Belgrade (see "*The Economy—Principal Sectors of the Economy—Construction—Bar-Belgrade Motorway*") for additional information). It is planned that of the project amount, 85 per cent. will be financed through a 20-year loan (with a 6-year grace period) from the Chinese EXIM Bank bearing fixed interest at 2.0 per cent. per annum and denominated in US dollars, and 15 per cent. will be provided by the State of Montenegro through its capital budget. Although the loan from the Chinese EXIM Bank does not include a fixed US dollar/euro exchange rate, the construction agreement between the CRBC and the Ministry of Transport and Maritime includes a fixed US dollar/euro exchange rate. It is expected that in the longer term approximately half of the project expenditure will be covered from road toll fee revenues.

The following table sets out the total public debt service for Montenegro for 2014 and the projected total state debt service for Montenegro for 2015 to 2017. The data in the following table is based on the assumptions that the forecast budget deficit (see "*Public Finance*") will be financed by borrowings and that Montenegro will borrow funds under pre-existing agreements with international financial institutions. See "*Forward-Looking Statements*". The following figures do not reflect any impact that the 15 per cent. of the Bar-Belgrade Motorway project cost financed by the Government through its capital budget may have on public debt or the impact of the issuance of the Notes. The following table reflects, to a limited extent due to the preliminary status of the project and relating financing arrangements, payments of interest on the loan from EXIM Bank, which is expected to cover the remaining 85 per cent. of the cost (the loan is expected to have a 6-year grace period during which no principal is payable).

	2014 ⁽¹⁾	2015	2016	2017
	(€ million)			
External state debt service.....	176.5	386.7	355.4	162.6

	2014 ⁽¹⁾	2015	2016	2017
	(€ million)			
Principal	109.9	317.8	305.0	129.1
Interest	66.6	69.0	50.4	33.5
Internal state debt service	121.8	83.7	79.4	65.3
Principal	113.0	77.2	74.4	60.8
of which: principal on T-bills	46.1	20.0	15.0	15.0
Interest	8.8	6.6	5.0	4.5
Total state debt service	298.3	470.5 ⁽²⁾	434.7	228.0
Principal	222.9	394.9	379.3	190.0
Interest	75.4	75.6	55.4	38.0

Source: Ministry of Finance

Note:

⁽¹⁾ Preliminary data.

⁽²⁾ Includes repayment at maturity of €154 million in respect of the Eurobond issued on 14 September 2010.

The following table sets out a breakdown of Montenegro's outstanding external general Government debt (excluding guarantees) as at 31 December 2013 and as at 31 December 2014.

	As at 31 December 2013		As at 31 December 2014	
	(€ million)	(% External Debt)	(€ million)	(% External Debt)
Creditor				
International Bank for Reconstruction and Development (IBRD)	235.5	16.4	229.4	14.69
International Financial Corporation (IFC)	0.6	0.0	0.0	0.00
Paris Club	98.8	6.9	98.8	6.33
International Development Association (IDA)	61.4	4.3	62.2	3.98
European Investment Bank (EIB)	96.3	6.7	103.8	6.65
European Bank for Reconstruction and Development (EBRD)	18.6	1.3	16.1	1.03
Council of Europe Development Bank	9.1	0.7	9.1	0.58
European Community	5.5	0.4	4.75	0.3
German Development Bank (KfW)	18.3	1.3	25.2	1.61
Soft Loans	99.0	6.9	82.9	5.4
Credit Suisse Bank	242.0	16.9	204.0	13.06
Erste Bank	42.8	2.9	32.0	2.06
Deutsche Bank	45.0	3.0	45.0	3.0
Eurobonds	460.0	32.1	647.4	41.45
Total	1,433.0	100.0	1,561.7	100.0

Source: Ministry of Finance

The following table sets out a breakdown of Montenegro's outstanding domestic general Government debt (excluding guarantees) as at 31 December 2013 and as at 31 December 2014.

	As at 31 December 2013		As at 31 December 2014	
	(€ million)	(% Domestic Debt)	(€ million)	(% Domestic Debt)
Creditor				
Frozen currency savings ⁽¹⁾	68.9	13.7	56.0	14.4
Municipalities	135.9	27.1	0.0	0.0
Restitution ⁽²⁾	90.2	18.0	89.6	23.0
Loans from commercial banks	102.9	20.6	85.6	22.0
Loans from non-financial institutions	18.0	3.6	9.4	2.4
Pension arrears	1.8	0.4	1.8	0.4
Treasury bills ⁽³⁾	78.4	15.7	71.7	18.4
Pension Fund bills	4.6	0.9	3.1	0.8
Domestic bonds	0.0	0.0	38.2	9.8
State companies	0.0	0.0	34.4	8.8
Total	500.7	100.0	389.8	100.0

Source: Ministry of Finance

Notes:

⁽¹⁾ Pursuant to the Law on Foreign Currency Savings Deposited with Non-Resident Banks passed in 2009 and the Law on Settlement on Claims and Obligations on Foreign Debt and Foreign Currency Savings passed in 2003, zero coupon bonds in the amount of €107.9 million were issued to depositors who had previously held foreign currency savings with former socialist banks which became bankrupt in the 1990s.

- ⁽²⁾ Restitution bonds with a 20-year maturity have been issued to citizens of Montenegro to compensate them for property which was appropriated.
- ⁽³⁾ T-bills are issued with six- or three month maturities, but since they are funded by application of the banks' non interest-bearing mandatory reserves, it is beneficial for the banks to roll-over the amounts at maturity.

Pursuant to the Budget Act for 2015, the Government may borrow in the maximum amount of €671 million to, *inter alia*, finance the budget deficit in the amount of up to €30 million, service outstanding debt in the amount of up to €399 million, finance highway construction in the amount of up to €206 million and service indebtedness of the Montenegrin Health Fund and other Montenegrin public health institutions in the amount of up to €36 million.

In May 2014, the new Law on Budget and Fiscal Responsibility entered into effect, which introduced a new form of reporting debt. Under the new Law on Budget and Fiscal Responsibility, the Government is obligated to report on both public and state debt. For state debt, the report must include the debt of state-owned companies, but not municipality debt, which is included in the report for public debt. The Government is required to issue the report on public and state debt within 90 days of the end of the fiscal year.

As at 31 December 2013, total general Government debt amounted to €1,933.7 million, or 58.0 per cent. of GDP, of which domestic debt accounted for €500.7 million, or 15 per cent. of GDP, and external debt accounted for €1,433.0 million, or 43.0 per cent. of GDP. As at 31 December 2014, total state Government debt amounted to €1,951.6 million (or 57.5 per cent. of GDP), which represented a 0.9 per cent. increase as compared to 31 December 2013 principally as a result of an increase in borrowings to finance the budget deficit. The breakdown of total debt as at 31 December 2014 was as follows: domestic debt of €389.8 million (or 11.5 per cent. of GDP) and external debt of €1,561.7 million (or 46.0 per cent. of GDP) (representing increases of 23.8 per cent. and 10.7 per cent., respectively, as compared to 31 December 2013).

As at 31 December 2013, the Government had €40.4 million of reserves. As a result, its net general debt represented 56.7 per cent. of GDP, as compared to 50.8 per cent. of GDP as at the end of 2012. As at 31 December 2014, the Government had reserves of €37.7 million, which represented a decrease of 6.7 per cent. as compared to 31 December 2013. As a result, the net general debt represented 56.4 per cent. of GDP. This reduction resulted from the use of Government reserves in the repayment of Government debt and the financing of the general Government budget deficit during the recorded period. The first phase of constructing the Bar-Belgrade Motorway is expected to require additional indebtedness, which, along with the issuance of the Notes, will raise Montenegro's debt to GDP ratio over 60 per cent., which would trigger a requirement that the Government take steps to reduce the ratio below 60 per cent. Such measures include setting a five-year plan to reduce the debt to GDP ratio to below 60 per cent., introducing new projects to increase revenues and introducing new taxes to pay off indebtedness. Despite such measures, the Government expects the ratio of debt to GDP to remain over 60 per cent. until the completion of construction of the Bar-Belgrade Motorway. The increase of the ratio to above 60 per cent. is not expected to have a negative impact on the proposed construction of the Bar-Belgrade Motorway or other infrastructure projects currently undertaken by Montenegro.

As at 31 December 2013, the average maturity of the general Government debt was 6.1 years, with an average weighted interest rate of 4.6 per cent. per annum. As at the same date, approximately 95.5 per cent. of all Government debt was denominated in euro and approximately 70 per cent. of the total Government debt bore interest at fixed rates, with the remainder bearing interest at floating rates and not being subject to any hedging arrangements. This data was not available for 2014 at the date of this Prospectus.

Approximately 35.5 per cent. of total external Government debt is owed to International Financial Institutions ("**IFIs**") (World Bank, EIB, EBRD, KfW, CEB, EU) and principally comprises rescheduled debt from the time when Montenegro was part of the former Yugoslavia. An additional 5.4 per cent. of total external public debt is in the form of "soft" bilateral loans with even more favourable conditions than those provided by IFIs (mainly Spanish, Polish, Austrian, Hungarian and French official development assistance) and 41.5 per cent of total external Government debt is in the form of international bonds.

Domestic debt predominantly relates to arrears incurred during the former Yugoslavia era, such as frozen assets bonds (issued to compensate holders of saving deposits held in state-owned banks) and restitution bonds, both of which are in the form of non-interest bearing instruments.

As at 31 December 2013, the total amount of outstanding guarantees issued by the Government was €313.2 million, or 9.4 per cent. of GDP, which represents a decrease of 20.8 per cent. as compared to 31 December 2012. This decrease was mainly due to the repayment of KAP guarantees. Government guarantees are usually issued only in favour of international financial institutions such as EBRD in respect of the obligations of Montenegrin state-owned companies in connection with large infrastructure projects, such as those relating to the power sector. The Government, however, has also issued guarantees to EIB and KfW in the past in respect of financial obligations of certain Montenegrin banks as part of its efforts to support the banking sector during the global financial and economic crisis in 2008 and 2009 as well as in connection with loans issued by certain banks to KAP and the Steel Mill. See "*The Economy—Principal Sectors of the Economy—Industrial production—Metals manufacturing—Restructuring of the indebtedness of KAP and the Steel Mill*". In 2014, the Government issued guarantees in the amount of €20 million for the benefit of the EBRD in connection with a construction project for an electrical transmission line between Tivat and Pljevlja, which will be connected to the underwater electricity transmission line between Montenegro and Italy.

Multilateral and Bilateral Development Organisations

International Monetary Fund ("IMF")

After gaining independence in 2006, Montenegro became a member of the IMF on 18 January 2007. Prior to its independence, Montenegro, as part of the Federal Republic of Yugoslavia and later the State Union of Serbia and Montenegro, had entered into various agreements with the IMF for a total amount of SDR 850 million. However, since its independence Montenegro has not entered into any new formal agreements with the IMF.

World Bank

Montenegro became a member of the World Bank on 18 January 2007. In 2007, Montenegro entered into an agreement with the World Bank and the Republic of Serbia in relation to the assumption of certain liabilities entered into by Montenegrin entities prior to Montenegro's independence. As part of this agreement, Montenegro assumed the following liabilities: approximately €270 million to the IBRD, approximately SDR 46 million to the International Development Association ("**IDA**") and donations to various government institutions of approximately U.S.\$1.46 million.

In addition, as part of the World Bank Country Partnership Strategy for Montenegro for the period 2007 to 2010, loans totalling approximately U.S.\$67.5 million have been agreed between the World Bank and various ministries. The Board of Directors of the World Bank adopted a Country Partnership Strategy for Montenegro for the period 2011-2014, which envisioned additional loans for Montenegro in the amount of U.S.\$215.7 million over that period. The Government of Montenegro and the World Bank commenced negotiations regarding a new Country Partnership Strategy for Montenegro for the period 2015-2018. During the negotiation process, both parties will define the total amount planned for new projects and what projects will be implemented during the period. As at 31 December 2013, the total amount owed to the World Bank by Montenegro was €369.4 million, or 25.7 per cent. of external debt. The Government of Montenegro and the World Bank signed an agreement, on 27 December 2013, in the amount of €5 million, for Project Energy Efficiency. In 2014, the Government and the World Bank signed a loan agreement in the amount of €50 million for an industrial waste and clean-up project, €20 million of which is for KAP. The loan has a 27-year maturity, including a 5 year grace period and an interest rate of EURIBOR + 0.95 per cent. payable semi-annually.

World Bank loans to sovereigns typically have long maturities (up to 30 years) with interest rates calculated at LIBOR/EURIBOR plus a variable or fixed rate spread (variable spreads may be up to 0.48 per cent. per annum and fixed rate spreads up to 1.15 per cent. per annum).

In the 2015 budget, the Government has three planned projects with the World Bank: a €12 million project for improving the Montenegrin health system and construction of a new hospital, a €20 million project for creating an information technology system for tax administration and a €25 million project for improving the health of the financial system.

European Bank for Reconstruction and Development ("EBRD")

After gaining independence, Montenegro became a member of the EBRD on 3 June 2006. On 25 April 2007, Montenegro signed a protocol with the EBRD setting out the basis for the implementation of two key projects, one related to railway infrastructure and one related to regional water supply systems. As part of the protocol, Montenegro has guaranteed loans of up to €18 million issued to the Railways of Montenegro, JSC in connection with the railway infrastructure project and €15 million provided to PE "Regionalni vodovod crnogorsko primorje" ("**PEW**") in relation to the construction of a regional water supply network to supply water to municipalities along the Montenegrin coast.

In 2010, the Government and the Deposit Protection Fund of Montenegro issued guarantees to the EBRD in the amounts of €13.5 million and €30.0 million, respectively, in connection with the loan issued by the EBRD to the Montenegrin passenger railway company.

In addition, the Government entered into credit agreements with the EBRD for the financing of the CGCO Pre-Privatisation Project, which involved the construction of a container terminal in Port of Bar, in the amount of €8.5 million and for the financing of a project for water supply and waste water treatment in the Danilovgrad municipality in the amount of €5.35 million. In 2013, the Government of Montenegro and EBRD signed a loan agreement, in the amount of €5 million, for the improvement of local roads.

In April 2014, the government issued a state guarantee in the amount of €20 million for the benefit of the EBRD in connection with a project for the construction of an electricity transmission line between Tivat and Pljevlja, which will be connected to the underwater electricity transmission line between Montenegro and Italy. Furthermore, the Government plans to enter into a credit agreement with the EBRD pursuant to which the Government may borrow additional amounts up to €20 million for the purposes of improving local roads that connect to regional roads in the northern part of the country. Regarding these two projects, the Government of Montenegro planned in the budget for 2015 for the issuing of a guarantee, in the amount of €40 million, for the construction of an electricity transmission line. For the road projects, €20 million worth of agreements are in the preparation phase and the Government expects that the agreement with the EBRD will be signed in 2015.

European Investment Bank ("EIB")

In May 2007, a Framework Agreement was signed between Montenegro and the EIB pursuant to which the parties agreed terms relating to, among other things, the tax treatment of EIB, the treatment of projects financed by the EIB, public tendering procedures, and any privileges and immunities awarded to the EIB in relation to the loans, guarantees and other financial instruments provided by the EIB in connection with its investments projects in Montenegro.

In addition, on 8 December 2009 Montenegro and the EIB signed a memorandum of understanding relating to the financing of projects during 2009-2014 worth approximately €200 million. The projects include the construction of railway infrastructure worth €34 million (with €14 million of financing already agreed), a waste water treatment project worth €54 million (with two phases in the total amount of €21.5 million of financing already agreed), a solid waste disposal project worth €30 million (with €27 million of financing already agreed) and the construction of bypasses in Montenegrin towns worth €60 million. The memorandum of understanding also allows other projects to be added and to increase the amount of funding for the existing projects depending on the development needs of Montenegro. In 2014, the Government signed a loan agreement in the amount of €10 million for financing a road infrastructure reconstruction project, which is expected to become effective in 2015. In 2015, the Government plans to sign an agreement for the waste water treatment project in the amount of €10 million.

In 2012, Montenegro entered into several agreements with EIB relating to financing arrangements for a flood relief and prevention project in the aggregate amount of €20 million and at the end of 2014, the Government used €17 million for reconstruction of roads and other infrastructure which had been destroyed during the 2010 flood.

In 2012, the Government issued guarantees relating to credit arrangements between commercial banks in Montenegro and the EIB in the aggregate amount of €90 million to be used for financing various projects undertaken by small- and medium-size enterprises. In addition, the EIB and the Investment Development Fund of Montenegro entered into various credit agreements in 2014 that envision financing provided by

the EIB in the total amount of €90 million to be used for the same purposes. At the end of 2014, the outstanding amount of this loan is €67 million.

Kreditanstalt für Wiederaufbau ("KfW")

After gaining independence, Montenegro and KfW signed a memorandum of understanding in April 2007 relating to the financing of certain projects.

The projects include the supply of water and waste water treatment in the coastal area (€57.5 million), establishing electricity substations in Ribarevina and Podgorica (€8.5 million), the rehabilitation and modernisation of the hydro power plant in Piva (€16 million plus a €1 million donation to EPCG) and the replacement of filters at the thermal power plant in Pljevlja and the extension of the electricity substations in Ribarevina and Podgorica (€15 million).

In addition, in September 2009 Montenegro and KfW signed another memorandum of understanding relating to projects involving renewable energy sources and water supply totalling €91 million. In accordance with this memorandum, in 2011 KfW and the Government signed a financing agreement for a total amount of €11.5 million relating to the Energy Efficiency Programme in Public Buildings.

Furthermore, in 2013 the Government issued guarantees in connection with the credit arrangements between Montenegrin Electrical Transmission System and KfW in the aggregate amount of €25 million in relation to a Tivat – Pljevlja electricity transmission line project.

The Government signed, on 20 December 2013, a new credit arrangement with KfW relating to a project for water and waste water treatment in the coastal area for a total amount of €36 million, which is expected to be implemented within the next three years.

In 2014, the Government signed an agreement with KfW for the loan of €20 million for phase two of the Energy Efficiency Program in Public Buildings.

In 2015, the Government expects to receive funds for a waste water treatment project in the amount of €10 million from the KfW.

Council of Europe Development Bank ("CEDB")

Montenegro became a member of the Council of Europe on 11 May 2007 and a member of the CEDB on 19 November 2007.

Montenegro is currently working with the CEDB on financing for a project relating to housing for people on low income which provides 431 apartments and houses for approximately for 1,260 people, amounting to €30 million. To date, the CEDB invested approximately €10 million in this project.

The Government is also working with the CEDB on several new financing projects. Funds from those projects will be used for improving the healthcare, education and prison systems. In June 2013, the CEDB's Administrative Board approved a €10 million loan relating to an education project that envisions the construction of several new childcare facilities in Montenegro. The loan is expected to be disbursed in stages with the first stage expected by April 2015. This agreement was signed in January 2014.

MONTENEGRO TAXATION SYSTEM

Taxation procedure

The Law on Tax Administration ("Official Gazette of the Republic of Montenegro", No. 65/ 01, 80/04, 20/11 and 28/12) regulates the taxation procedure in Montenegro. This law is a codification of procedures that regulate: the process of identification, control and collection of taxes and other duties; the process of registration of taxpayers; rights and obligations of taxpayers; authorisations and powers of the tax authority in Montenegro ("**Tax Administration**") and other important issues. This law is a fundamental regulation in the reformed tax system of Montenegro and all state bodies and local governments' authorities are obliged to observe it when deciding on the rights and obligations of taxpayers.

Tax on Personal Income

The obligation of paying tax on personal income is regulated by the Law on Personal Income Tax ("Official Gazette of the Republic of Montenegro", No. 65/ 01, 37 /04 and 78 /06 and "Official Gazette of Montenegro", No. 86/09, 14/ 12, 6/13, 62/13 and 60/14), which has been in force since 1 July 2002.

The said law regulates the taxation of income earned by natural persons, namely: the taxpayer, tax base, tax period, tax rate, earnings that are taken out from income, income on which the tax is not paid, sources of income and the manner of determining it, personal allowance as non-taxable income, advance tax payment and determining and paying of annual income tax, tax relief, avoidance of double taxation and penalty provisions.

Taxpayer and subject of taxation

A payer of personal income tax is a resident or non-resident natural person who earns taxable income. The subject of taxation of a resident is income which the resident earns in Montenegro and outside of Montenegro (the principle of worldwide income). The subject of taxation of a non-resident natural person (non-resident) is income that the non-resident earns in Montenegro.

Sources of income

Income earned from personal income, self-employment, property and property rights, capital, capital gains and games of chance is subject to personal income tax. The Games of Chance Act (*Zakon o igrama na sreću*) ("Official Gazette of the Republic of Montenegro" no. 52/2004 and "Official Gazette of Montenegro" nos. 13/2007, 40/2011 and 61/2013) broadly defines games of chance as any game in which participants have equal opportunities to acquire gains with direct or indirect payment of a specified amount, and the result of the game depends on the case or an uncertain event in the game. Organizing games of chance is subject to concession awarded by the Montenegrin Government.

Personal income

Personal income is income that a taxpayer receives from employment and income earned on other grounds which are in line with this law and correspond to labour relations. Personal income tax is calculated, withheld and paid by the employer or payer of the income, on each occasion on which the taxpayer receives a payment in respect of his/her wages.

Self-employment

Income from self-employment is considered to be income generated by economic activity, free professions, professional and intellectual services and income from other self-employment activities that are not the core business of the taxpayer and are occasionally performed for the purpose of earning income, if, in accordance with the law, they are not taxed on other grounds. Income from self-employment is considered to be income from agriculture and forestry, if the person earning that income is the taxpayer of the value added tax.

Taxable income from self-employment is the taxable profit of the taxpayer. Taxable profit is determined by adjusting the profit of the taxpayer disclosed in their Income Statement according to accounting regulations adjusted in the manner prescribed by Montenegrin tax law.

Tax on income from self-employment during the year is paid in the form of monthly instalments at the end of each month in respect of income earned during the previous month in an amount of 1/12 of the tax liability that is calculated in the annual tax return for the previous year.

The advance tax paid on this basis is considered a credit against the liability based on the tax return for the current year.

A taxpayer whose total turnover (revenue) in the year preceding the year for which the tax is determined (or planned turnover when starting to perform activities) is less than €18,000, may be allowed by the Tax Administration to pay the tax liability in an annual lump sum.

For a taxpayer who receives income from occasional self-employment (which is not the main activity of the taxpayer), unless he documents the actual costs, standard costs shall be recognised in the amount of 30 per cent. of earned income. The base for payment of this tax is net income, which is the difference between actual revenues and actual or standard expenses of the taxpayer. The tax rate on this income amounts to 9 per cent. of the tax base. Persons who earn income from occasional self-employment are not obliged to file an annual tax return for such income and advance tax payments are considered to finally satisfy the tax liability.

Property and Property Rights

Revenue from leasing of movable and immovable property and income from the time-limited assignment of copyrights, industrial property rights and other property rights are considered to be income from property and property rights. The base for payment of income tax on income from property and property rights is the difference between the total revenue from the above-mentioned property and the total costs arising from the revenue earning activities in respect of that property in the same tax period. Costs arising from property and property rights are considered to be the actual costs incurred in connection with earning of such income (if documented) or standard cost in the amount of 30 per cent. of revenues from property and property rights. For income from rental of rooms, apartments and holiday houses for travellers and tourists, standard costs are 50 per cent. of revenues, **provided that** the residence tax is paid.

Advance payment of tax on income from property and property rights during the year is calculated, withheld and paid by the payer of income (a legal entity or an entrepreneur), upon each collection of income, by applying the rate of 9 per cent. on the prescribed tax base.

In respect of indirect generation of revenues from property and property rights (when a natural person rents property to another natural person), the income tax is paid when filing the annual tax return.

Capital

Capital income is considered to be: interest income, share in profits earned by executives and employees in cash or shares and income from the use of property and services by the owners and the co-owners of capital for their personal needs and dividends and share in profit. Also, income from capital is considered to be earnings based on shares and equity investments by the management and employees in the company's capital, which they receive or buy under preferential conditions.

When determining taxable income from capital, the expenditures are not recognised and the revenues are taxed as a whole.

The tax on income from capital is paid upon deduction, which means that the payer of income is obliged to calculate, withhold and pay tax on income at a rate of 9 per cent. simultaneously with the payment of income. The tax rate on interest income earned by non-resident natural persons is 5 per cent.

Capital gains

Capital gain is income achieved through the sale of assets that include: real estate, shares in legal entities and securities.

Taxable income from capital gain is the difference between the sale price and purchase price of property.

The tax on capital gains is paid at a rate of 9 per cent. and is paid when filing the annual tax return.

Games of chance

Games of chance income is any income from games of chance.

When determining taxable income from games of chance, the expenditures are not recognised and the revenues are taxed as a whole. **Provided that** the incomes consists of goods, services or rights, taxable income is the market value of goods, services or rights at the moment when income is made.

Payment of tax on income from games of chance during the year is calculated, withheld and paid by the payer of income, upon each payment of income and within a day from payment of income, by applying the rate of 15 per cent. on the prescribed tax base. In respect of revenues from goods, services or rights, the income tax is paid when filing the annual tax return.

Tax base

The base for calculating tax on income of a resident is taxable income of the taxpayer made in the tax period, reduced by the amount of transferred loss.

The base of the tax on income of a non-resident is taxable income of the taxpayer earned in the tax period.

The tax rate

The tax rate is proportional and as from 2010 it amounts to 9 per cent., except for the interest income paid to non-residents, when a rate of 5 per cent. is applied. Exceptionally, personal income that is above €720 per month is taxed at a rate of 13 per cent. on the amount above €720.

Corporate Income Tax

Taxation of legal persons is regulated by the Law on Corporate Income Tax ("Official Gazette of the Republic of Montenegro, No. 65/01, 80/04, and "Official Gazette of Montenegro" 40/08, 86/09, 14/12 and 61/13). According to the provisions of this law, a payer of corporate income tax is a resident or non-resident legal person performing an activity with the view to making a profit. The subject of taxation of a resident legal entity is income that the resident earns in Montenegro and outside of Montenegro (worldwide income principle), while a subject of taxation for a non-resident is the income earned by that entity in Montenegro. The rate of corporate income tax amounts to 9 per cent.

The tax base for corporate income tax is the taxable income of the taxpayer, determined by adjustment of accounting profit shown in their Income Statement, in the manner envisaged by the Montenegrin law governing income taxation. Namely, the above-mentioned law prescribes the adjustment of income and expenses of a taxpayer.

In order to stimulate economic activity in underdeveloped areas, there is a possibility of using tax relief to start businesses in economically under-developed municipalities. Namely, it is envisaged that the newly established legal entity in an underdeveloped municipality, involved in production activities, shall be exempt from income tax for the first eight years of operation. This relief may be used by other entities that are establishing a business unit in an underdeveloped municipality.

VAT

The system of indirect taxation in Montenegro is regulated by the Law on Value Added Tax - VAT ("Official Gazette of the Republic of Montenegro", No. 65/ 01, 38/ 02, 72/02, 21/ 03, 76 /05, and "Official Gazette of Montenegro", No. 16/ 07 and 29/ 13) and the Law on Excise Tax.

The obligation to pay the value added tax was introduced by the Law on Value Added Tax, the principal solutions of which have been in force since 1 April 2003. This law introduced the obligation to pay net multi-stage turnover tax ("EU model"), which replaced the previous tax on turnover in retail sales. Taxation of products and services is determined according to the place of consumption, using the principle of destination. This solution implies that the export of products is exempt from VAT and import of products is taxed and is treated same as domestic products. All taxable supplies of goods and services have been taxed at a single general rate of 17 per cent. Zero rate is applied for export of products (as well as transactions that are directly associated with such export).

Through amendments to the above-mentioned law made at the end of 2005, another VAT rate (a reduced rate of 7 per cent.) was introduced in the VAT system for a number of products and services that are relevant to the citizens' living standards. The reduced VAT rate of 7 per cent. was applied to the basic products for human consumption (milk, bread, fat, oil and sugar), medications, orthotic and prosthetic tools (other than those issued at the expense of the Republican Health Insurance Fund when zero rate is applied), textbooks and teaching aids, books, monographs and serial publications, daily and periodical newspapers, a number of cultural services that are paid for through tickets, delivery of water (excluding bottled water), public transportation of passengers and their baggage, public hygiene and funeral services. Also, the tax rate was decreased (from 17 per cent. to 7 per cent.) for accommodation (overnight stays) in tourist facilities, as well as for a number of products used in agriculture while application of the zero tax rate was extended to the delivery of medicines and medical devices which are financed from the funds of the Republican Health Insurance Fund.

In late 2007, amendments were made to the Law on Value Added Tax, by which, with the aim to encourage the development of nautical tourism and protect the living standard of citizens, the VAT rate was reduced for a number of products and services from 17 per cent. to 7 per cent. The list of products and services taxed at the reduced VAT includes infant food, flour, meat, computer equipment, services provided at marinas.

The subjects of taxation by VAT are turnover of goods and services by a taxpayer in the performance of its business for a fee, as well as imports of goods in Montenegro. The tax base for the calculation and payment of VAT is a fee for delivered goods and services rendered in which VAT is not included and the fee is all that the recipient of the product or user of services should give or pay, with the exclusion of any relevant VAT.

The taxpayer is a legal or natural person that independently and permanently performs an activity with the aim to make income, and which, for the past 12 months, has achieved or intended to achieve a taxable turnover in excess of €18,000. Entities that have turnover of less than €18,000 are not taxpayers of VAT by the force of law, but if they want to take advantage of the tax system, they may file an application with the tax authorities for VAT, **provided that** this status must be kept for at least three years.

By the Law on Amendments to the Law on VAT, applied since 1 July 2013, the general VAT rate was increased from 17 per cent. to 19 per cent. while the reduced VAT rate was not changed.

Taxpayers who carry out taxable supplies of goods and services have the right to deduct the input VAT under the condition that the invoices for purchased products and services rendered contain all the information prescribed by the provisions of Article 32, paragraph 1 of the Law on Value Added Tax, that the delivery of goods or services was made by another VAT taxpayer, that the right to deduct input VAT was not excluded for the goods or services received and that received products or services are intended for the taxpayer's business activity. Input VAT is considered to be the amount of VAT calculated and collected by the customs authorities at the time of import.

A taxpayer may not deduct input VAT from representation expenses, vessels designed for sport and recreation, cars and motorbikes, fuel and lubricants, spare parts and services closely associated with them, except for vessels or vehicles that are intended for further sale, lease (rent-a-car), the transport of persons and goods (taxi) and drivers' training related to driving of the above-mentioned means of transportation.

A taxpayer to whom the deduction based on prepayment of tax is higher than its tax obligations shall be entitled to a tax credit for the next tax period or that amount shall be returned to him at his request within 60 days of filing the monthly tax return for the calculation of VAT. A taxpayer who mainly exports products and a taxpayer that in more than three successive VAT calculations shows an excess of input VAT, receives the difference related to VAT within 30 days from the date of filing a tax return for the calculation of VAT.

Excise tax

The obligation to pay excise tax is stipulated by the Law on Excise Tax ("Official Gazette of the Republic of Montenegro", No. 65/01, 76/05 and "Official Gazette of Montenegro", No. 76/08, 50/09, 78/10, 61/11, 28/12, 38/13 and 35/14) which has been in force since 1 April 2002. This law introduced the obligation to pay excise tax for three groups of products and those are the following: alcohol and alcoholic drinks, tobacco and tobacco products and mineral oils, their derivatives and substitutes. As of 1 April 2012,

coffee and carbonated water were introduced in the Montenegro excise system as excise products. Excise tax is paid on excise products produced in Montenegro and excise products imported in Montenegro.

An excise taxpayer is a producer and/or importer of excise products. The excise liability may be transferred from the producer and/or importer to the excise licensee and/or excise user exempt from tax.

An excise taxpayer for domestic products, calculates the excise tax by himself. Excise tax is calculated monthly and that calculation is provided on the appropriate tax return and submitted to the tax authority by the fifteenth calendar day of the month and the excise tax is paid in the same period. The excise tax on cigarettes is paid 60 days from the date of receipt of excise stamps (this applies to both domestic and imported cigarettes). The obligation to pay excise tax on the import of excise products (except for cigarettes), occurs at the time of payment of customs duties, except in cases where there is a possibility of deferred payment of excise (storing in a customs warehouse or shop of a user of excise products exempt from excise tax).

The most important exemptions from excise tax payment are related to the following products:

- Products used for official purposes of the diplomatic and consular representative offices and international organizations accredited in Montenegro, as well as for personal needs of expatriate staff or members of their families;
- Products sold on ships and airplanes in international traffic;
- Products brought by a passenger in his/her personal baggage from abroad which are exempt from import duties;
- Mineral oils, their derivatives and substitutes, which are contained in reservoirs of cars, ships and airplanes from abroad and are not designated for sale;
- Products that are dispatched from the customs warehouse to customs free shops opened at the international border crossings where customs and passport control is provided, to be sold to travellers in accordance with customs regulations.

The manufacturer or importer shall, before commencing the free circulation of the tobacco products and alcoholic beverages (except beer), mark such products with excise tax stamps. The Tax Administration, at the request of the importer or manufacturer of tobacco products and alcoholic beverages, shall issue the excise stamps and the printing costs of such excise stamps shall be borne by the applicant.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Montenegro of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Montenegrin Taxation

Under the Montenegrin Corporate Profit Tax Law (Official Gazette of Montenegro No 65/2001, 12/2002, 80/2004, 40/2008, 86/2009, 40/2011, 14/2012 and 61/13), withholding tax of 9 per cent. is applicable to payments of interest in respect of the Notes except where any applicable double taxation treaty stipulates otherwise. Under Montenegrin Personal Income Tax Law (Official Gazette of Montenegro No 65/01, 12/02, 37/04, 29/05, 78/06, 4/07, 86/09, 40/11, 14/12, 6/13, 62/13 and 60/14) withholding tax at the rate of 9 per cent., and in the case of payments to non-residents, 5 per cent., is applicable to payments of interest to natural persons in respect of the Notes. In the event payment of interest in respect of the Notes is subject to withholding or deduction for any such tax pursuant to Condition 10 (Taxation), the Issuer has agreed to pay such additional amounts as will result in the receipt by Noteholders of such amounts as would have been received by them if no such withholding or reduction had been required, subject only to the exceptions set out in that Condition.

Under Montenegrin law, there is no requirement for any Noteholder or Accountholder to provide any identification to demonstrate, or certification to the effect, that it is not resident in Montenegro in order to be entitled to receive any such additional amounts.

Residents of Montenegro investing in Notes may be subject to capital gain tax upon sale of the Notes.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria will instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 per cent, unless during such period they elect otherwise. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The Council of the European Union formally adopted a Council Directive amending the Savings Directive (the "**Amending Directive**") on 24 March 2014. The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016.

However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

Certain U.S. Federal Income Tax Considerations

Each investor should seek advice from an independent tax advisor in determining the tax consequences of acquiring, holding, and disposing of the Notes based on such person's particular circumstances, including the application of the laws of any federal, state, local or non-U.S. taxing jurisdiction.

The following summary discusses certain U.S. federal income tax consequences of the acquisition, ownership and disposition of the Notes. Except as specifically noted below, this discussion applies only to:

- Notes purchased on original issuance at their issue price;
- Notes held as capital assets (generally, property held for investment); and
- U.S. Holders (as defined below).

This discussion does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances or to U.S. Holders subject to special rules, such as:

- financial institutions;
- insurance companies;
- dealers in securities or foreign currencies;
- persons holding Notes as part of a hedging transaction, straddle, conversion transaction or other integrated transaction;
- U.S. Holders whose functional currency is not the U.S. dollar;
- partnerships or other entities classified as partnerships for U.S. federal income tax purposes; or
- former citizens and residents of the United States.

This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "**Code**"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S.

Treasury Regulations all as of the date of this Prospectus and any of which may at any time be repealed, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. Persons considering the purchase of the Notes should consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under other U.S. federal tax rules (such as the Medicare contribution tax or the alternative minimum tax) and the laws of any state, local or non-U.S. taxing jurisdiction.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia; or
- an estate or trust the income of which is subject to U.S. federal income taxation on a net income basis regardless of its source.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and upon the activities of the partnership. Partners of entities classified as partnerships holding Notes should consult with their tax advisors regarding the U.S. federal tax consequences of an investment in the Notes.

Payments of Interest

Interest paid on a Note will be taxable to a U.S. Holder as foreign source ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes.

The amount of income recognised by a cash basis U.S. Holder in respect of interest paid in euros on the Notes will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment on such Notes in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year).

Under the second method, the accrual basis U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within each taxable year). Additionally, if a payment of interest on the Notes is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the U.S. Internal Revenue Service (the "**IRS**").

Upon receipt of an interest payment on the Notes (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note), the accrual basis U.S. Holder may recognise U.S. source exchange gain or loss (taxable as U.S. source ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of any Montenegrin taxes withheld by the Issuer and as then having paid such amount to the Montenegrin taxing authorities. As a result, the amount included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest, plus any additional amounts with respect thereto, will be greater than the amount of cash actually received by the U.S. Holder from the Issuer with respect to the payment. Subject to certain limitations, a U.S. Holder will generally be entitled to a credit against its U.S.

federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Montenegrin income taxes withheld by the Issuer. Any election to deduct non-U.S. taxes instead of claiming U.S. foreign tax credits must apply to all applicable non-U.S. taxes paid or accrued in the taxable year. The U.S. foreign tax credit rules are very complex. U.S. Holders should consult with their tax advisors with respect to the application of these rules to their particular circumstances.

Sale, Exchange or Retirement of the Notes

Upon the sale, exchange or retirement of a Note, a U.S. Holder will recognise U.S. source taxable gain or loss equal to the difference between the amount realised on the sale, exchange or retirement and the U.S. Holder's adjusted tax basis in the Note. For these purposes, the amount realised does not include any amount attributable to accrued but unpaid interest on the Note, which is treated like a payment of interest as described under "—Payments of Interest." A U.S. Holder's adjusted tax basis in a EUR Note generally will equal the U.S. dollar acquisition cost of the Note.

A U.S. Holder will recognise exchange rate gain or loss (taxable as ordinary income or loss) on the sale, exchange or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's EUR purchase price for the Note (i) on the date of sale, exchange or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale, exchange or retirement.

The remainder of any gain or loss realised on the sale, exchange or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange or retirement the U.S. Holder has held the Note for more than one year. The deductibility of capital losses is subject to limitations. U.S. Holders should consult their own advisors regarding the calculation of the U.S. dollar amount of payments made with respect to the Notes.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments on the Notes and the proceeds from a sale or other disposition of the Notes unless a U.S. Holder establishes that it is an exempt recipient. A U.S. Holder that has not done so may be subject to U.S. backup withholding on payments subject to information reporting if it fails to provide its tax identification number and comply with certain certification procedures. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, **provided that** the required information is timely furnished to the IRS.

U.S. Holders should consult their tax advisors about any reporting or filing obligations that apply as a result of the acquisition, holding or disposition of the Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

SUBSCRIPTION AND SALE

Each of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, Erste Group Bank AG and Société Générale (together, the "**Joint Lead Managers**") has, pursuant to a subscription agreement entered into by them with the Issuer and dated 13 March 2015 (the "**Subscription Agreement**"), jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 99.444 per cent. of their principal amount. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to the Issue Date.

The Joint Lead Managers and their respective affiliates may have engaged in transactions with the Issuer in the ordinary course of their banking business and the Joint Lead Managers may have performed various investment banking, financial advisory and other services for the Issuer, for which they receive customary fees, and the Joint Lead Managers and their respective affiliates may provide such services in the future.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Erste Group Bank AG is not a U.S. registered broker-dealer and will not effect any offers or sales of any Notes in the US unless it is through one or more U.S. registered broker-dealers as permitted by the regulations of the Financial Industry Regulatory Authority, Inc. Accordingly, the Joint Lead Managers have agreed, severally and not jointly, to offer the Notes for resale in the United States initially only to persons who they reasonably believe to be QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the respective meanings given to them by Regulation S.

The Notes are being offered and sold by the Joint Lead Managers outside the United States in accordance with Regulation S. The Subscription Agreement provides that the Joint Lead Managers may through their respective U.S. affiliates resell a portion of the Notes within the United States only to QIBs in reliance on Rule 144A.

An offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A, or another available exemption from registration under the Securities Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Montenegro

Each Joint Lead Manager has represented, warranted and agreed that it will not, as part of its initial distribution of the Notes, offer or sell any Notes to residents of Montenegro or legal entities incorporated in Montenegro unless such residents or legal entities are authorised or licensed under Montenegrin law to acquire, hold, manage or dispose of the Notes on the date of the relevant offer or sale.

General

No action has been or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has represented, warranted and agreed that it has, to the best of its knowledge and belief, complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer and each Joint Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. The Common Codes and ISINs for the Regulation S Notes and the Rule 144A Notes are as follows:

Regulation S Notes

Common Code: 120571770

ISIN: XS1205717702

Rule 144A Notes

Common Code: 120572016

ISIN: XS1205720169

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

2. Admission to Trading

It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around 18 March 2015, subject only to the issue of the Global Note. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in United States dollars and for delivery on the third working day after the day of the transaction. The expenses in connection with the admission of the Notes to the Official List and trading on the Market are expected to amount to approximately £7,175.

3. Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in Montenegro in connection with the issue and performance of the Notes. The issue of the Notes was authorised pursuant to the Budget Law of 2015 and the Decision of the Government passed on 29 January 2015 and 12 February 2015.

4. Significant Change

There has been no significant change in the Issuer's (i) tax and budgetary systems, (ii) gross public debt, (iii) foreign trade and balance of payment figures, (iv) foreign exchange reserves, (v) financial position and resources and (vi) income and expenditures figures since 31 December 2014.

5. Litigation

There are no and have not been any legal or arbitration proceedings against the Issuer (including any such proceedings which are pending or threatened of which the Issuer is aware), which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the Issuer's financial position, except as discussed under "*The Economy—Principal Sectors of the Economy—Industrial production—Metals manufacturing—Steel Mill litigation*" and "*KAP litigation*".

6. Yield

The yield of the Notes is 4.000 per cent. on an annual basis. The yield is calculated as at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.

7. **Documents on Display**

For the period of 12 months starting on the date of this Prospectus, copies of the following documents may be inspected at the specified office of the Paying and Transfer Agent during normal business hours:

- (a) the Fiscal Agency Agreement;
- (b) this Prospectus and any supplements thereto; and
- (c) the Budget Law of Montenegro for the current fiscal year.

The document referred to in (c) above has been translated into English from the original Montenegrin. This translation constitutes a direct and accurate translation of the Montenegrin language text. In the event of a discrepancy, the Montenegrin version shall prevail.

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