CRNOGORSKI ELEKTROPRENOSNI SISTEM

OPERATING STATEMENT

OF CRNOGORSKI ELEKTROPRENOSNI SISTEM AD FOR THE YEAR **2021**

Podgorica, **june 2022. godine**

Ivan Asanović,
Executive Director

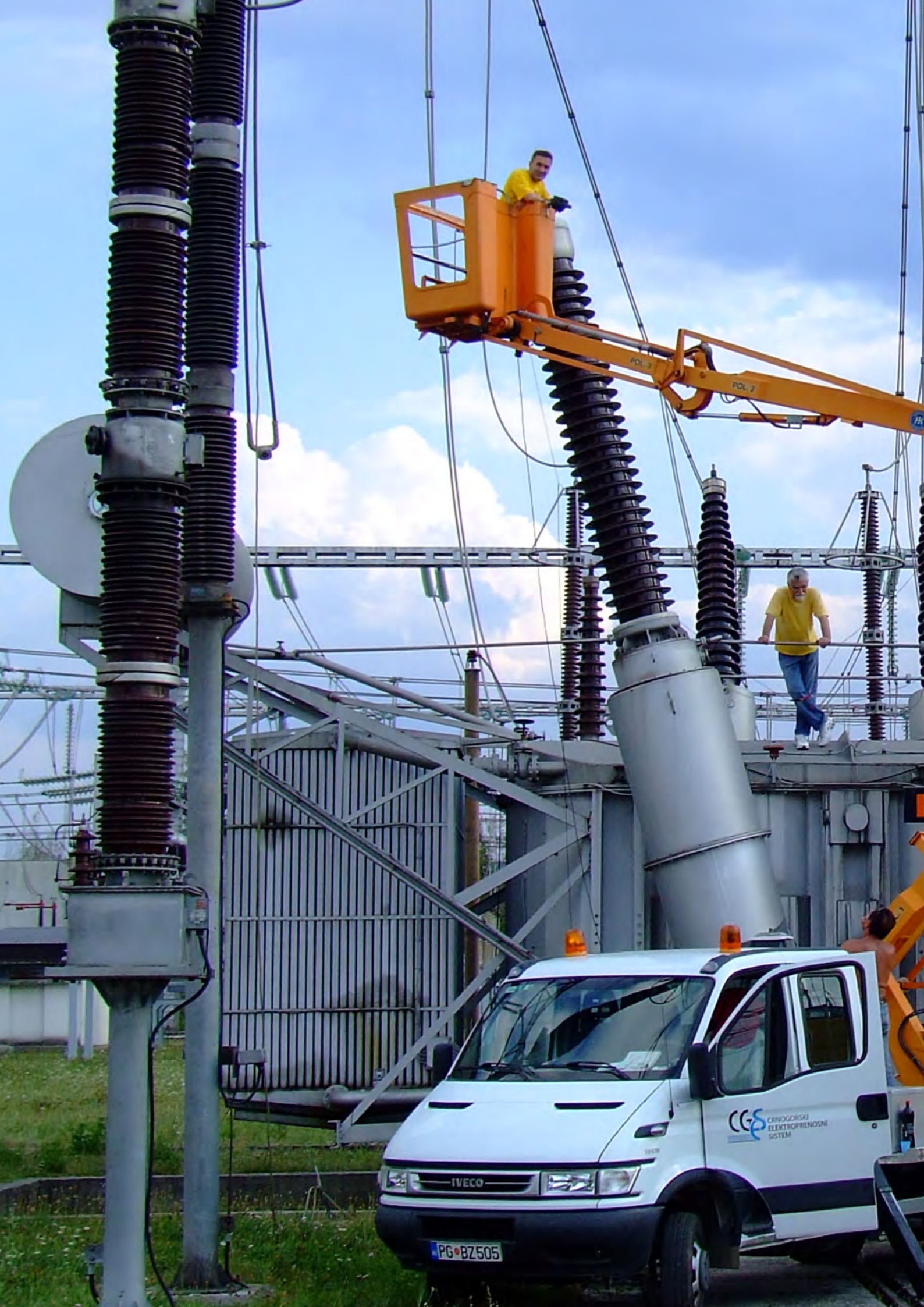
Dear shareholders of Crnogorski elektroprenosni sistem,

Control stability, numerous investments, visible results, constant improvement of the services we provide, high level of cooperation with the European Network of Transmission System Operators for Electricity (ENTSO-E) and the Energy Community of South East Europe, as well as maintaining a leading position in openness to regional initiatives, followed our path of success in 2021. That is why, with pride, but also with responsibility, I present to you the Operating Statement for the past year, which took place in very specific conditions of the pandemic crisis caused by the coronavirus, so that both feelings are even more pronounced. I am proud of the profit of almost €17 million because this business result is proof that we have continued to provide even better and higher quality service and that we have done well in adapting to new business conditions. Nevertheless, this historical result in the operation of CGES obliges us to make a significant step forward every year.

In order to achieve our mission and provide a reliable transmission system with sufficient capacity and undisturbed access for all users, in 2021, we implemented projects that enabled connection and strengthening of the transmission network internally, which contributed to creating preconditions for the development of the Montenegrin economy.

In addition, I believe that our projects encourage investment activities in Montenegro and the region, especially those related to the construction of new sources of electricity. In order to meet these goals, it is necessary to continue with the intensive implementation of a very ambitious investment plan because only in this way will we respond to the challenges posed by the future. Recognising the needs of the society, CGES initiates, supports and promotes numerous projects aimed at improving and enhancing the quality of life, as well as those of wider importance for the community in which it operates. We did this systematically and actively through numerous sponsorships and donations during 2021, clearly emphasising and confirming our commitment to be at the top of socially responsible companies in Montenegro.

Finally, I would like to emphasise that our employees are the most valuable resource we have. They are, above all, the key to success in achieving such impressive results because their knowledge, skills, ideas and agility contribute to the further development of the Montenegrin electricity transmission system.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About us

The core activity of Crnogorski elektroprenosni sistem (CGES) is electricity transmission. In accordance with EU regulations related to the liberalisation of the electricity market, the company was registered as an independent joint-stock company on 27 March 2009. The reliability and quality of the service we provide to our customers are guaranteed by decades of experience in the development, operation, maintenance and control of the transmission system, acquired through a number of organisational forms within the Montenegrin electricity sector since 1957, when the first facility of the Montenegrin transmission network was put into operation.

In addition to controlling the operation of the transmission system in compliance with operational parameters, procedures of importance for operation in European interconnection and market principles, Crnogorski elektroprenosni sistem AD maintains, improves and develops the transmission network using the latest technologies. Thereby, the transmission of electricity in Montenegro, as an activity of public interest, continuously provides the preconditions for proper power supply to users, reliable placement of energy produced and significant transits through our territory. Wise business decisions are necessary in order to overcome periods of extensive works, significant investments and fluctuations in business costs without negative impact on users.

In addition to electricity transmission, the company also has a license to provide telecommunication services, thanks to its network of optical telecommunications fibres, about 730 kilometres long, throughout the country.

From the connection of the first substation in Nikšić until today, the electricity transmission system of Montenegro has come a long way. The main goal of the company, during all these decades of change and innovation, has always been and remains a satisfied transmission system user.

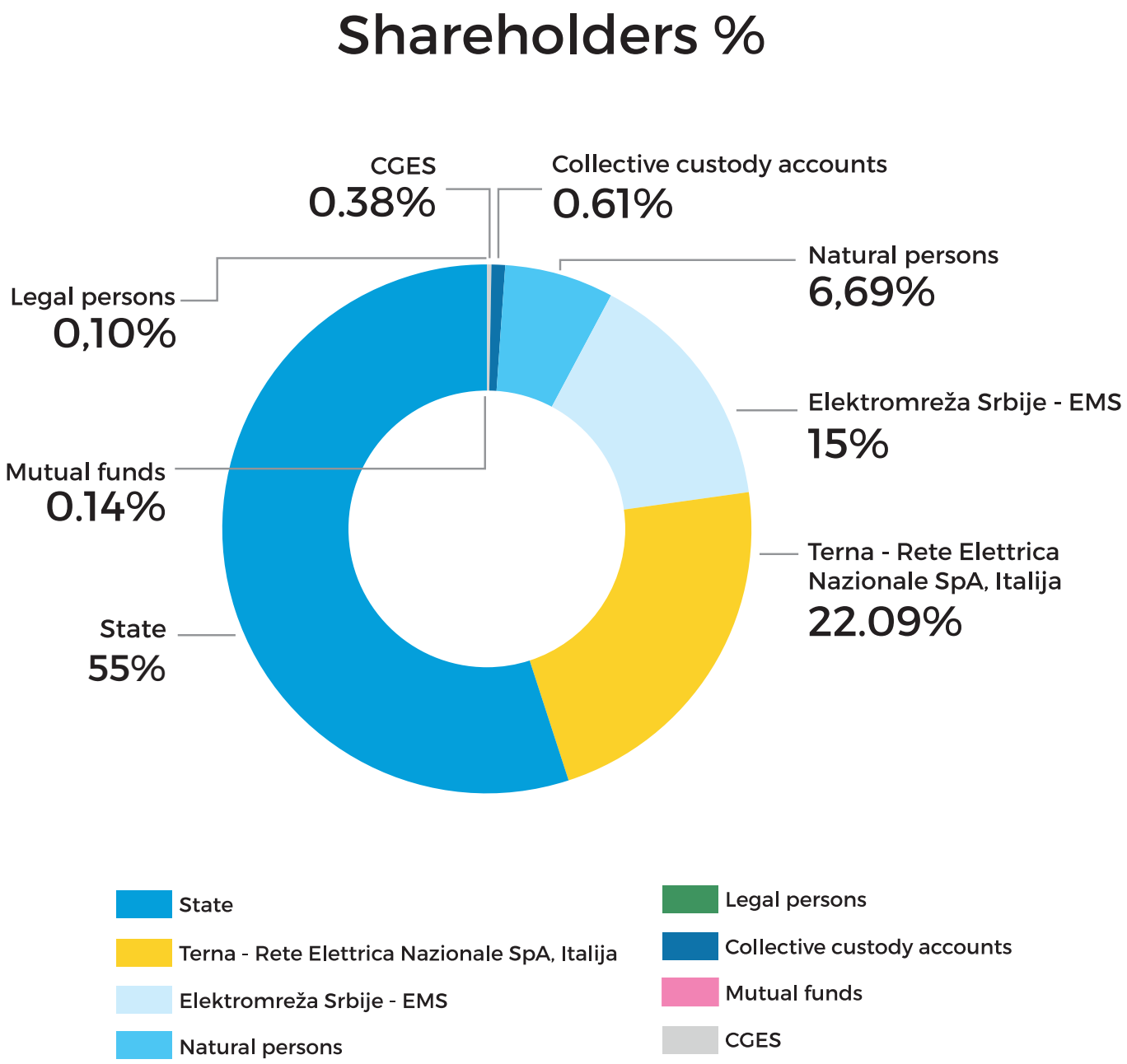
One of the confirmations of our efforts is the **annual award of the Chamber of Commerce of Montenegro for successful performance** awarded by the Chamber of Commerce of Montenegro to companies and entrepreneurs who in 2020 stood out for excellent business results, social responsibility, innovation, and management improvement. Our company was among the laureates and it was awarded the greatest recognition in the sphere of economy in the country on 21 April 2021.

Ownership Structure

As of 31 December 2021, the share capital structure was the following:

The share capital of CGES amounts to €155,108,283, divided into 146,176,876 shares with the nominal value of €1.0611. The total number of shareholders, according to data from the Central Depositary Agency as of 31 December 2021, is 6,999.

The ownership structure of CGES as of 31 December 2021 was the following: The State of Montenegro holds 55.00%, Terna Rete Nazionale S.p.A. 22.0889%, JSC Elektromreža Srbije - Beograd 15.00%, natural persons 6.69%, collective custody accounts 0.61%, mutual funds 0.14%, legal persons 0.10% and CGES 0.38%.



Organisation

The authorities of the Company and their responsibilities are determined by the Companies Act and the By-Laws of the Company.

The Shareholder Meeting is the ultimate authority of the Company. Through the Meeting, shareholders pass and approve the most important acts, property, election and status related decisions. The XII Annual Shareholder Meeting of CGES was held during 2021.

In addition to decisions adopting the 2020 Operating Statement, 2020 Financial Statements with Auditor's Report and Decision on selection of an auditor for 2021, members of the Board of Directors were elected at the Meeting. At the IX Extraordinary Shareholder Meeting of Crnogorski elektroprenosni sistem, the shareholders unanimously adopted the proposal of a decision to distribute the net profit of Crnogorski elektroprenosni sistem AD for 2020 as provided by the decision, meaning that a portion of 60 percent, or the amount of €7,475,848.80 will be paid as a gross amount of dividend to the Company's shareholders, while a portion of the net profit of 40 percent, or the amount of € 4,983,899.20 will be distributed as retained earnings and cumulated with the profit from previous years.

The Board of Directors is authorised to manage the Company, give guidelines to the Executive Director in terms of managing the Company's operations and monitor the Company's operations. CGES' Board of Directors consists of seven members who, after the removal of the previous convocation, were elected at the XII Annual Shareholder Meeting held on 28 June 2021.

On the same day, a constitutive meeting of the newly elected Board of Directors was held, at which it was decided that Aleksandar Mijušković would cover the role of the Chairman of the Board of Directors in the next term, while Giacomo Donnini was entrusted with the role of Vice Chairman.

At the II ordinary meeting, the Board of Directors of Crnogorski elektroprenosni sistem unanimously adopted a draft Decision on distribution of net profit for the year 2020 in the amount of over €12,459,748, thereby additionally showing responsibility towards shareholders, which also contributes to increasing trust in our company, which is necessary for further successful business.

The Executive Director is authorised to manage the Company's assets and organise and lead the business activities of the Company, to represent the Company and to take care of the legality of the Company's work.

In November, the Board of Directors of Crnogorski elektroprenosni sistem AD appointed Ivan Asanović, Bachelor of Science in Electrical Engineering, the former Acting Executive Director, to the position of Executive Director with a four-year term. Significant business experience and continuous professional development of Ivan Asanović have determined the members of the CGES Board of Directors to unanimously decide on his appointment to this position.

Social responsibility

As a socially responsible company, which has always had a special sensibility towards domestic intelligence, acquiring knowledge and training future staff, primarily electrical engineers, CGES donated €20,000 to the **Faculty of Electrical Engineering of the University of Montenegro** to support student education through the **modernisation of the amphitheatre 016**, i.e. through the improvement of working conditions of both students and teaching staff.

As a socially responsible entity, which takes care of environmental protection also through the improvement of the visual impact of electric power facilities, CGES launched the campaign **"Our Olive"** (*MNE: Naša maslina*) with 850 trees of this noble plant planted in the immediate vicinity of the **substation in Lastva.** With this project, we are making a specific contribution to the development of olive growing in the Bay of Kotor, and on the other hand, we are raising awareness about the importance of preserving and investing in the environment.

Crnogorski elektroprenosni sistem and the **Paralympic Committee** signed a new sponsorship agreement ahead of the Paralympic Games in Tokyo. The umbrella sports association for persons with disabilities reminded, first of all, that CGES is its **first and general sponsor** which has been year by year increasing its support for athletes.

By continuing to nurture socially responsible business, Crnogorski elektroprenosni sistem donated seven computers and a multifunction printer to the **Health Care Institution Special Psychiatric Hospital Dobrota in Kotor**. On that occasion, the delivery of this valuable donation was marked in the premises of this health care institution.

Environmental protection

Within the permanent activities of the Company to ensure environmental protection, numerous activities were performed:

- Periodic measurements of electromagnetic radiation levels were performed by an accredited institution in SS 110/35 kV Herceg Novi, SS 110/35 kV Tivat, SS 110/35 kV Bar, SS 110/35 kV Ulcinj and SS 110/35 kV Cetinje. The measurements were performed in accordance with the Law on Protection against Non-Ionizing Radiation, and the measured values are lower than prescribed by the Rulebook on the limits of exposure to electromagnetic fields.

- Waste management is performed in accordance with the principles of sustainable development, i.e. more efficient use of resources, which means preventing waste whenever possible, proper storage of waste (especially hazardous), preparation of existing waste for reuse, recycling or energy recovery. Most of the waste produced is recycled.

- Approval of the Waste Management Plan of CGES AD was obtained from the competent authority - the Environmental Protection Agency, in October 2021 for a three- year period, after the previously obtained Approval expired.

- The Annual Waste Report FY 2020 was submitted to the Environmental Protection Agency, and the data from the report were also submitted to MONSTAT.

- Data on installed equipment with SF6 gas in 2020 were submitted to the Environmental Protection Agency for the purpose of updating the comprehensive inventory of air emissions for 2020..

- At the request of ENTSO-E, data on the inventory of equipment with SF6 gas were submitted.

- Compensation measures were implemented in the previous year related to the settlement of liabilities to the Environmental Protection Fund of Montenegro (ECO FUND), which collects and invests funds in building a sustainable society in Montenegro and PE National Parks of Montenegro for the purpose of passing transmission system facilities through national parks.

Waste management as one of the activities carried out in order to protect the environment is performed in accordance with the principles of sustainable development, i.e. more efficient use of resources, which means preventing waste whenever possible, proper storage of waste (especially hazardous), preparation of existing waste reuse, recycle or recover energy and ensure the preservation of the environment from the negative effects resulting from work processes. Our company handles waste in accordance with the Law on Waste Management and according to the Waste Management Plan of CGES AD. Annual reports on waste management are submitted to the Agency for Nature and Environmental Protection and MONSTAT. Most of the waste produced is recycled. During 2021, 44 tons were recycled.

The implementation of the integrated management system (ISO 9001, ISO 14001 and ISO 45001), which is ongoing, as far as the environment is concerned, it is expected to improve the performance of the environmental management system, fulfil obligations for compliance with identified aspects and impacts and achieve goals that are consistent with the adopted Integrated Management System Policy.

On the path to even better cooperation

Aleksandar Mijušković, the Chairman of the Board of Directors of CGES, and Board members Predrag Mijajlović and Orhan Šahmanović hosted the representatives of Elektromreža Srbije led by General Manager Jelena Matejić. This is the first official visit of the managers of Elektromreža Srbije after a long time marked by the coronavirus pandemic. The delegation of Elektromreža Srbije also included Tamara Crvenica, Executive Director for Legal Affairs, Kristina Bojović, Executive Director for Human Resources, and Branislav Đukić, Corporate Director for International and Regulatory Affairs. At the meeting, experiences were exchanged, with a focus on many topics related to the work of both transmission system operators.

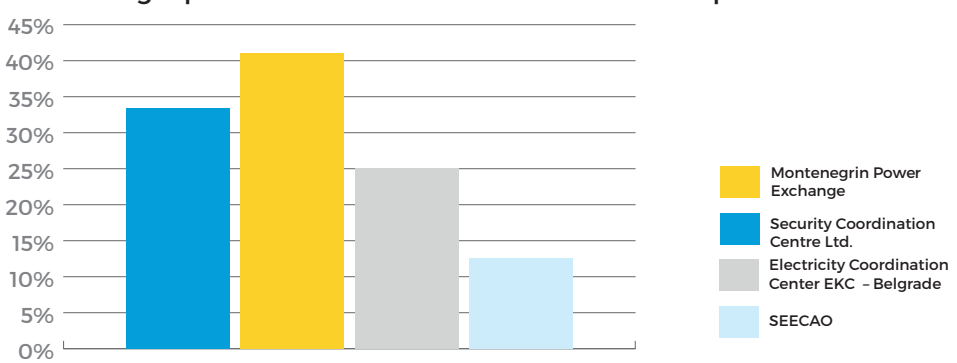
The Rector of the University of Montenegro, Prof. Dr Vladimir Božović, and the Dean of the Faculty of Electrical Engineering, Prof. Dr Saša Mujović, paid a working visit to Crnogorski elektroprenosni sistem, hosted by Aleksandar Mijušković, the Chairman of the Board of Directors. Crnogorski elektroprenosni sistem perceives this higher education institution as a strategic partner in the field of higher education. In this regard, the establishment and forms of future cooperation, among other things, were discussed at the meeting.

By signing new transmission system operation agreements with all neighbouring transmission system operators with which it borders (EMS - Serbia, NOSBiH - Bosnia and Herzegovina, Terna - Italy, OST - Albania and KOSTT - Kosovo), CGES ensured compliance with the relevant ENTSO-E standards. and defined a number of important issues. This improved the conditions for the functioning of the system in the interconnection and enhance operational security.

Legal persons in which CGES has an ownership share

CGES has control and impact on the operations and decision-making, proportionally to its ownership share, of the following legal persons:

Legal persons in which CGES has an ownership share



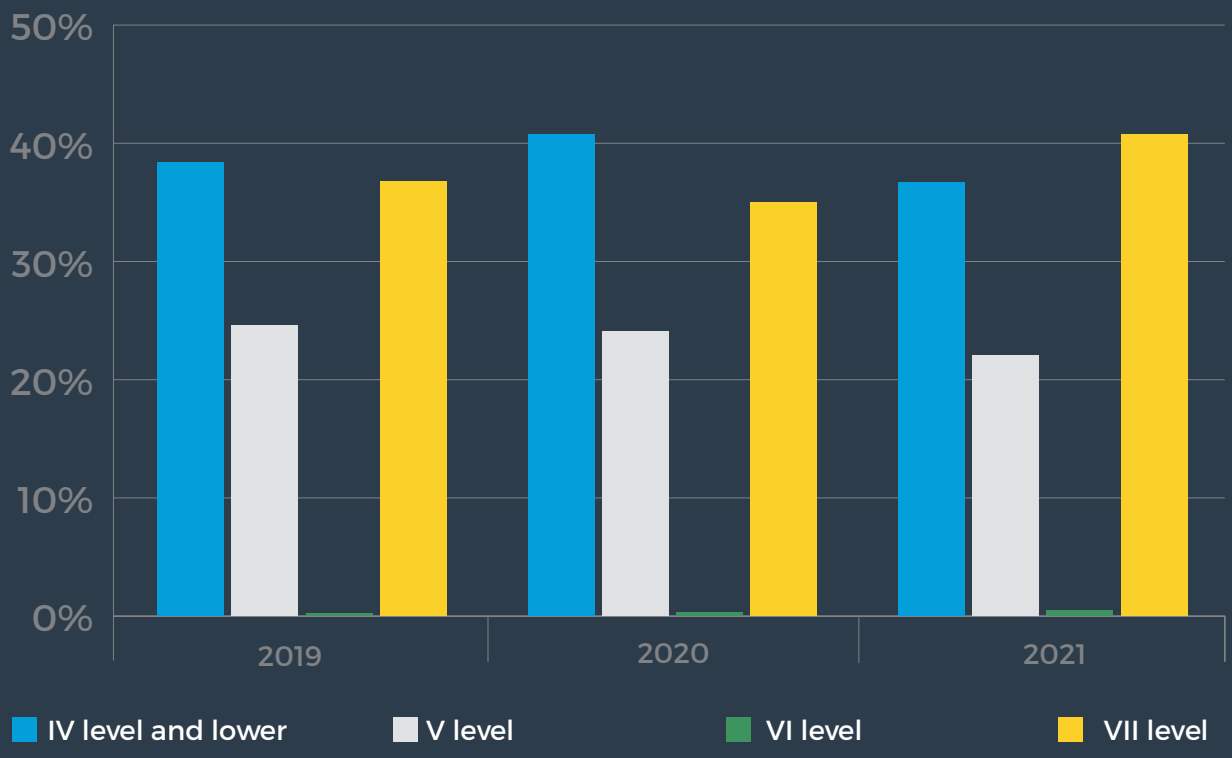
Our Team

The energy sector is undergoing a radical and rapid transformation: requirements for the transmission system operator are evolving, challenges are increasing, and our ways of working and the skills we need are changing. In this context, our human resources are vital to accepting the challenges of the current energy transition, and thus to the growth and development of our company. No change can happen if it is not initiated by people.

Human resources

Considering the company's plan to, by valorising its potentials, with a focus on the development of the transmission system, be recognised for the best quality services and ready to meet the challenges of the energy transition process, we continuously strive to pay special attention to the improvement of human resources policy, given that success is guaranteed by the knowledge, competence and commitment of employees to common goals. It is vital for us to have the best staff in the team, so we strive to identify new ways of working, use new ways of thinking and thus create more productive conditions.

Qualification structure of employees in the period 2019 - 2021 (%)



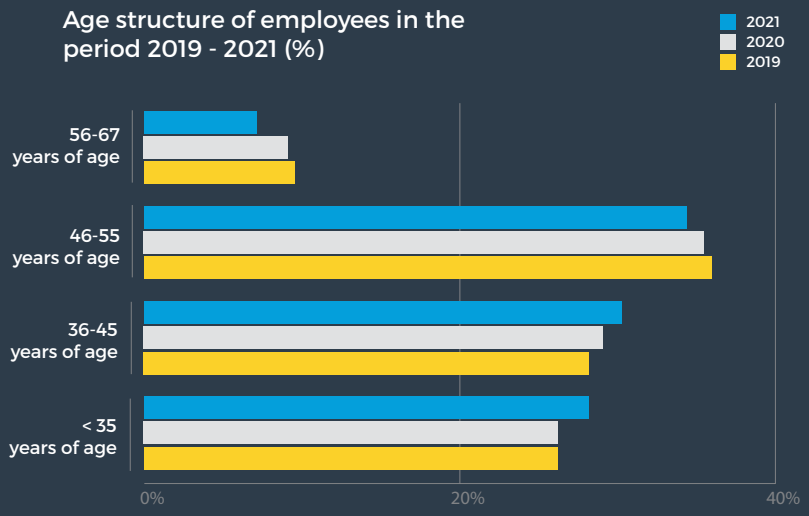
Our team is being built gradually, making efforts to establish and adjust the structure of human resources that can optimally meet all tasks. The needs for employee engagement are analysed and planned taking into account the wide range of responsibilities of the transmission system operator and the strategic goals of the Company.

During 2021, the emphasis was placed on improving human resources to provide preconditions for an adequate response to legal obligations within the company's competence and the requirements of the European Network of Transmission System Operators for Electricity (ENTSO-E), as well as to establish adequate operation and control of infrastructure, which is a consequence of the implementation of projects approved by the Energy and Water Regulatory Agency (ERA) and implemented by the end of 2021.

For the above reason, we are recording an increase in the number of employees and changes in the staff and age structure. As of 31 December 2021, the total number of employees in CGES was 333. That number includes 317 employees with indefinite-term employment contracts, and 16 employees with fixed-term employment contracts.

The changes resulted in 28% more highly educated staff and 16% more employees under the age of 45 compared to the end of 2020. In addition, we have 13% more employed women than in 2020, which has a slightly positive effect on more equal representation of both sexes in human resources. We are pleased to point out that the percentage of women in management is 23%, and in top management 50%.

It is important to note that a significant part of new employees in the previous period was engaged in various jobs in the Company through an agency for temporary assignment of employees, so we are pleased to ascertain that the opportunity to establish an employment relationship was provided to candidates who, thanks to their previous valuable work experience, were ready to adequately respond to the tasks entrusted to them.



Eight years in a row, we have been supporting the Programme for vocational training of persons who acquired a higher level of education of the Government of Montenegro, so four persons carried out the vocational training within our Company during 2021. In addition, employees were trained on the topic of the use of software packages for the analysis of TNA and PSS/E systems and Siprotec 5 protection devices, implementation of digital substation projects, project management, with special reference to building contracts based on FIDIC conditions, risk management in accordance with ISO 31000: 2018 and the application of accounting standards and financial planning and reporting, analysis of financial statements and other topics related to quality accounting and financial management.

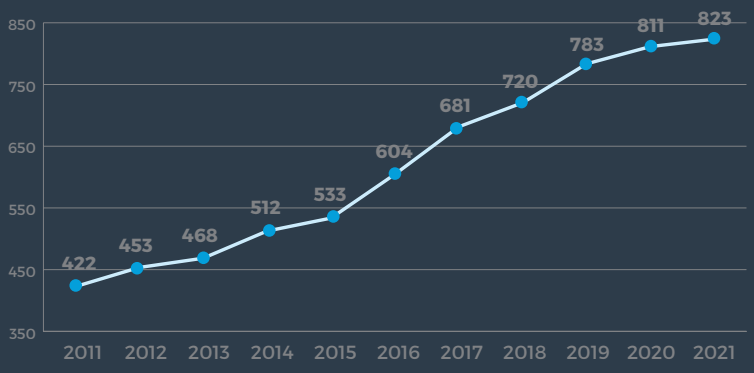
Internally, in coordination with several sectors, trainings for work on newly installed control and protection equipment were carried out in SS Berane, SS Tivat and SS Herceg Novi, while comprehensive training in several thematic areas was carried out in cooperation with implementers of the ERP and DMS system.

At the VII Conference of the Montenegrin Committee for the International Council on Large Electric Systems - CG KO CIGRE, which was attended by 250 eminent experts and in which 48 scientific papers from Montenegro and the region, presented within 14 study committees, were accepted, the engineers of Crnogorski elektroprenosni sistem gave their full contribution with their current papers, notable participation in round tables, as well as through conducting scientific and professional discussions.

Value of assets per employee

Taking into account the significance of the energy sector for the total employment rate in the country, on the one hand, and the necessity of optimisation of all costs of the core activity, including personnel cost, on the other, the Company has been improving from year to year one of the main efficiency parameters – the value of assets per employee. Therefore, the intention is to achieve an optimal compromise between contributions to the national standard through hiring of new employees and optimisation of regulated costs.

Value of assets per employee [€1,000] in the period from 2011 to 2021

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Occupational safety and health

Within the permanent activities of the Company to ensure adequate measures of occupational safety and health of employees, during 2021, numerous activities were performed in the field of occupational safety and health:

- ▸ Periodic specialist medical examinations of employees at workplaces with special working conditions were performed, at the request of employees or employer;
- ▸ Existing HV collective protection equipment was inspected;
- ▸ Training for safe work was organized for employees in high-risk workplaces and employees who changed job positions, all in accordance with the Law on Occupational Safety and Health
- ▸ Occupational health and safety records were updated;
- ▸ Breathalyzer for determining employees' blood alcohol content were delivered;
- ▸ Jobs where the length of insurance is calculated with increased duration were determined;
- ▸ Training for providing first aid by employees was carried out;
- ▸ The 45001 Occupational Safety and Health Policy was adopted within the Integrated Management System Policy.

As in 2020, CGES continued to implement measures and recommendations issued by the competent authorities to prevent the importation of COVID-19 and its spread among employees and made sure to provide protection for all its employees.
As CGES, regardless of the pandemic, is obliged to ensure quality and safe functioning of the electricity transmission system of Montenegro, and taking into account the danger to the health of employees, in addition to acquainting employees with all protection measures adopted by the competent institutions, an Engagement and Work Organization Plan was prepared in 2 scenarios:

- ▸ Scenario 1: Performing all regular activities with a minimum stay at work;
- ▸ Scenario 2: Minimal work process.

A team for preventive action and crisis staffs, whose tasks involved preventive action in order to prevent the importation and spread of the virus (COVID-19), i.e. the implementation of measures, recommendations and decisions adopted by the Government of Montenegro, were formed within CGES.

Accordingly, the employees were sent instructions for the installation of software for holding meetings over the Internet, and regular activities, coordination and communication among employees, even in the case of work from home, went smoothly.

Our Network

Current state

The transmission system in Montenegro, pursuant to the Energy Law, consists of facilities (substations) and lines (overhead lines and cables) at 400 kV, 220 kV and 110 kV voltage level.

Crnogorski elektroprenosni sistem AD Podgorica owns 1,416.67 km of overhead lines as follows:

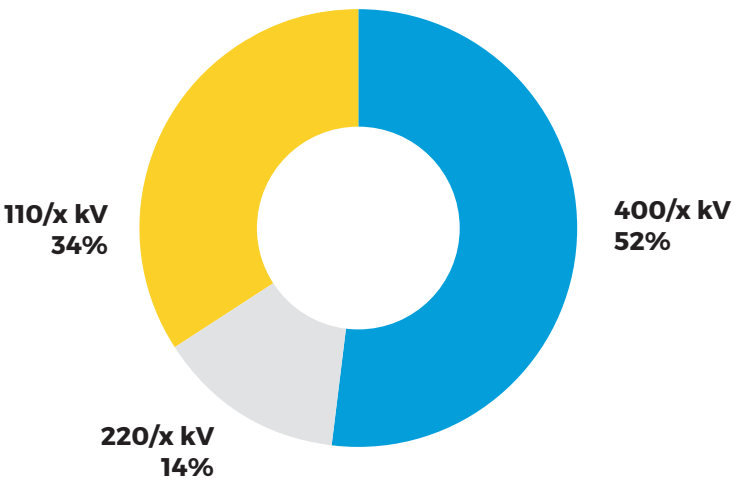
- 6 overhead lines 400 kV, 355.3 km in length;
- 8 overhead lines 220 kV 338 km in length;
- 35 overhead lines 110 kV, of which three are 2x110 kV overhead lines, 613,6 km;
- 4 overhead lines 110 kV, 97 km in length, operating at 35 kV level;
- 2 underground cable lines 110 kV, 7.3 km in length;
- 1 combined line 110 kV, 5.47 km in length (2.80 km of transmission line and 2.67 km of cable length).

and an installed power of 4166.5 MVA in:

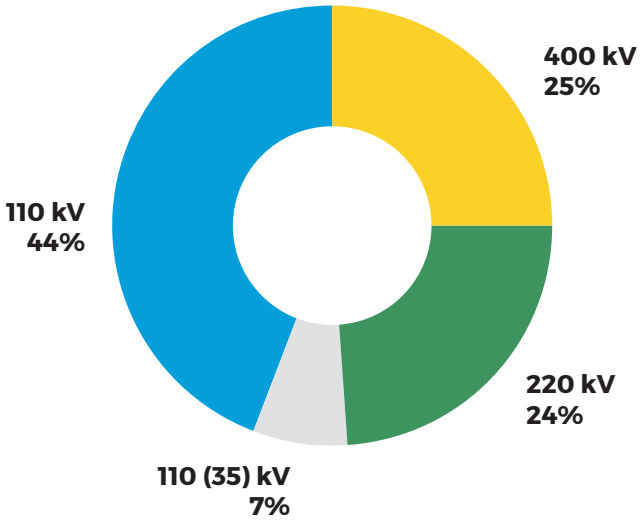
- 4 substations 400/x, (2,335 MVA);
- 2 substations 220/x , (616 MVA);
- 19 substations 110/x, (1,215.6 MVA).

CGES also controls 220 kV and 110 kV plants in HPP Piva and HPP Perućica (owned by EPCG), as well as 110 kV plants in WPP Krnovo (owned by KGE) and SS Highway (MNE: Autoput) 1 and SS Highway 2 (owned by Monteput).

Transformation power by voltage levels



Line lengths by voltage levels



The transmission system of Montenegro has a considerable number of interconnective overhead lines with neighbouring electric power systems:

- With the electric power system of Serbia, the transmission system of Montenegro is connected via two 220 kV OHLs and with one 110 kV OHL;
- With the electric power system of Kosovo, the transmission system of Montenegro is connected via one 400 kV OHL;
- With the electric power system of Bosnia and Herzegovina, the transmission system of Montenegro is connected via one 400 kV OHL, two 220 kV OHL, two 110 kV OHLs and one 110 (35) kV OHL;
- With the electric power system of Albania, the transmission system of Montenegro is connected via 400 kV OHL and one 220 kV OHL; and
- With the electric power system of Italy, transmission system of Montenegro is connected via 500kV HVDC submarine cable.

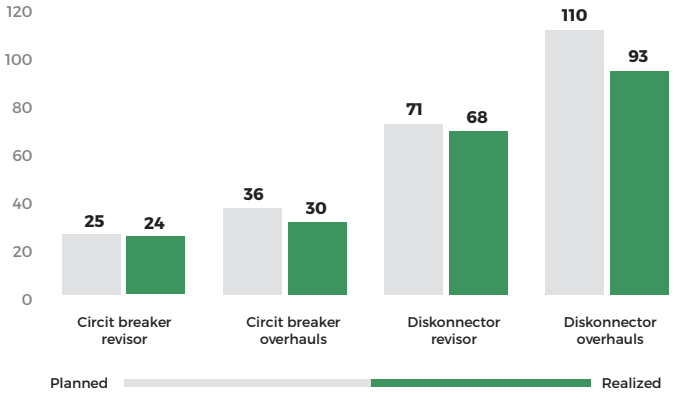
The following facilities are connected to the electricity transmission network owned by CGES:

- Hydroelectric power plants Perućica (installed capacity 310 MW) and Piva (347 MW),
- Thermal power plant Pljevlja (210 MW),
- Wind power plants Krnovo (72 MW) and Možura (46 MW),
- Direct consumers:
  - Aluminium Plant Podgorica (KAP),
  - Toščelik – Steelworks Nikšić and
  - Railway Infrastructure of Montenegro,
- CEDIS, which through distribution network supplies around 400.000 registered distribution consumers with electricity.

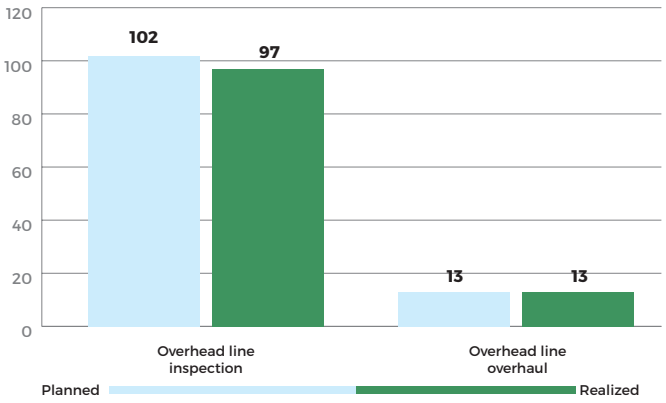
Substation and overhead line maintenance, relay protection and testing

In the previous year, the Overhead line Maintenance Division executed 299 work orders, of which 142 orders for planned activities and 157 for remedial actions. A total of 30 overhauls and 24 revisions of circuit breakers were successfully completed, which represents a realization of 88.5%, as well as 58 overhauls and 54 revisions of disconnectors, which is 89% compared to the plan. The lower percentage of realized in relation to the plan is predominantly conditioned by the overlapping of the overhaul plan with the replacement of the primary equipment in substations, which is being realized through the project of replacement of HV equipment (grant).

Realization of the SS Overhaul and Revision Plan



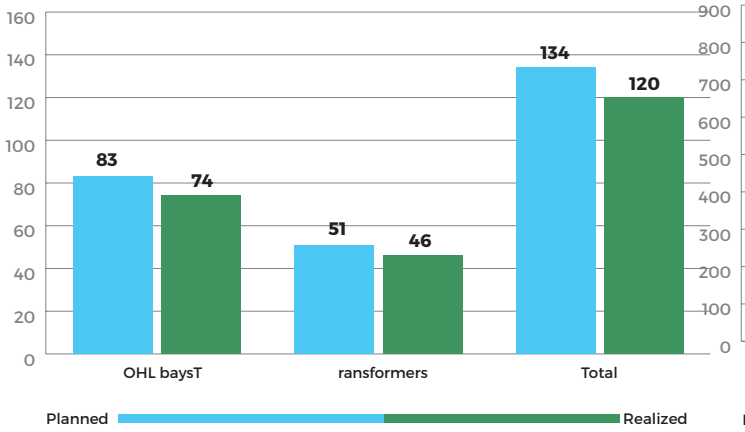
Realization of the Overhead Line Inspection and Overhaul Plan



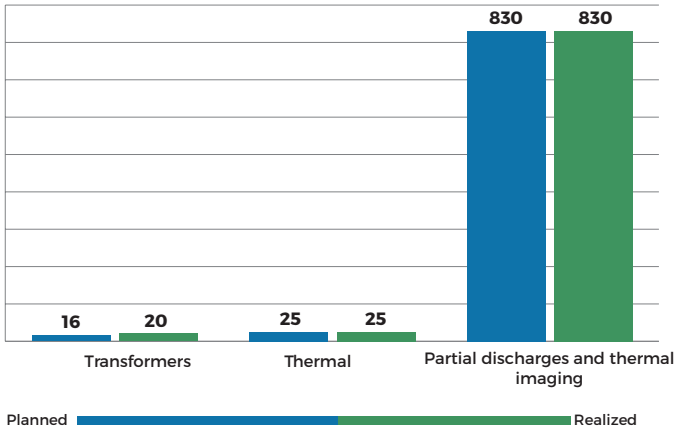
The overhead line maintenance division successfully completed 97 inspections and 13 overhead line overhauls , which is 95% of the planned inspections, or 100% of the planned overhauls. After regular inspections, the overhead lines were repaired for deficiencies that were estimated to affect the operational safety of the transmission lines. The problem is the fact that in the course of 2021, no procurement or works on deforestation in the overhead line routes were realized, which caused more outages of overhead lines. Emergency felling was performed by employees of the Overhead Line Maintenance Division.

In the past year, the Protection Relay Division executed157 work orders and completed the testing of protection relays in 120 bays, which is the realization of 89.55% in relation to the plan. Lowe realization in relation to the plan is mostly caused by the impossibility of disconnecting certain elements of the system in the required terms.

Realization of the Protection Testing Plan



Realization of the Testing Division Plan

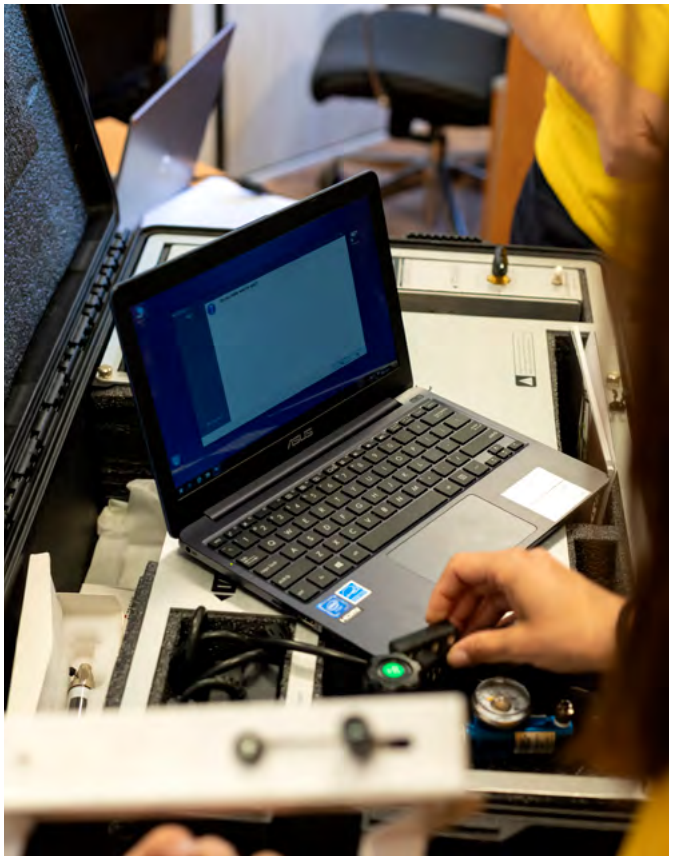


In the past year, the Testing Division executed150 work orders. Full testing of 20 power transformers was performed, which is a realization of 125% compared to the plan. Higher realization in relation to the plan is conditioned by testing of newly installed 400/110 kV transformers in SS Lastva and SS Podgorica 2, as well as extraordinary testing of spare transformers. In addition to testing transformers, the Testing Division last year measured partial discharges on all instrument transformers in operation, and performed thermal imaging inspection of all HV equipment of all facilities.

Care for electric power facilities includes regular monitoring and testing of equipment, regular inspections, examinations and overhauls as well as fast, efficient and quality elimination of defects and handling emergency situations, all in such a way as to ensure that the voltage-free time of any electricity transmission system user does not exist or is minimal.

Of the investments in existing facilities in 2021, it is important to emphasize the implementation of the project Replacement of HV equipment in SSs and the project Reconstruction of protection and control systems, which are implemented within the project financed from the European Commission grant. The project includes works in 15 substations. During the previous year, the procurement, installation and commissioning of two transformers 400/110 kV, 300 MVA in the substations Podgorica 2 and Lastva was performed.

During 2021, a new transformer worth almost €2 million was installed in the 400/110 kV substation Podgorica 2, which provided greater reliability of the electric power system operation, especially when it comes to the consumption areas of Podgorica, Cetinje and the Montenegrin coast.



Transmission System Control

CGES, as the founder and member of ENTSO-E, continuously works on improving internal rules and procedures of transmission system control, while respecting the requirements that apply to all European transmission system operators and the specifics of our network, and all in order to provide the highest quality transmission service for our customers.

Transmission system monitoring and control is performed from the National Dispatching Centre (NDC) and the Reserve Dispatching Centre (RDC) by using the SCADA system and other state-of-the-art software tools software tools.
Electric power system control includes system management (maintenance of frequency stability, voltage stability, application of defensive measures and restoration of operation after disturbances), system monitoring in terms of static and transient stability, as well as operational control of switching operations.
An increasingly demanding task of maintaining balance between the users' needs and generation, as well as ensuring a highly reliable electric power network, under the most favourable conditions for users, requires activities to improve methodologies and encourages development of cooperation at the regional level.

2021 control novelties

From the very beginning of 2021, CGES has continued to improve the process of cross-border electricity exchange. Starting from the fact that in December 2020, the Kosovo transmission system operator (KOSTT) started operating as a separate control area, giving CGES another electricity border, CGES introduced a new practice of weekly cross-border capacity calculations at the borders with Serbia, Albania and Kosovo. In this way, the process of bringing the realised transits of energy closer to the planned ones was started, thus raising the forecast of system operation reliability to a new level.

In order to meet the preconditions for the transition to the new CGMES format for exchanging network models for security analysis, two formal audits (Audit 1 and Audit 2) were conducted during 2021, and the process of creating models in the new format was successfully tested and started during December 2021.
In the part of allocation of cross-border transmission capacities, the successful practice from previous periods was continued, enriched by the introduction of "resale" possibilities at the Montenegro – Serbia border.

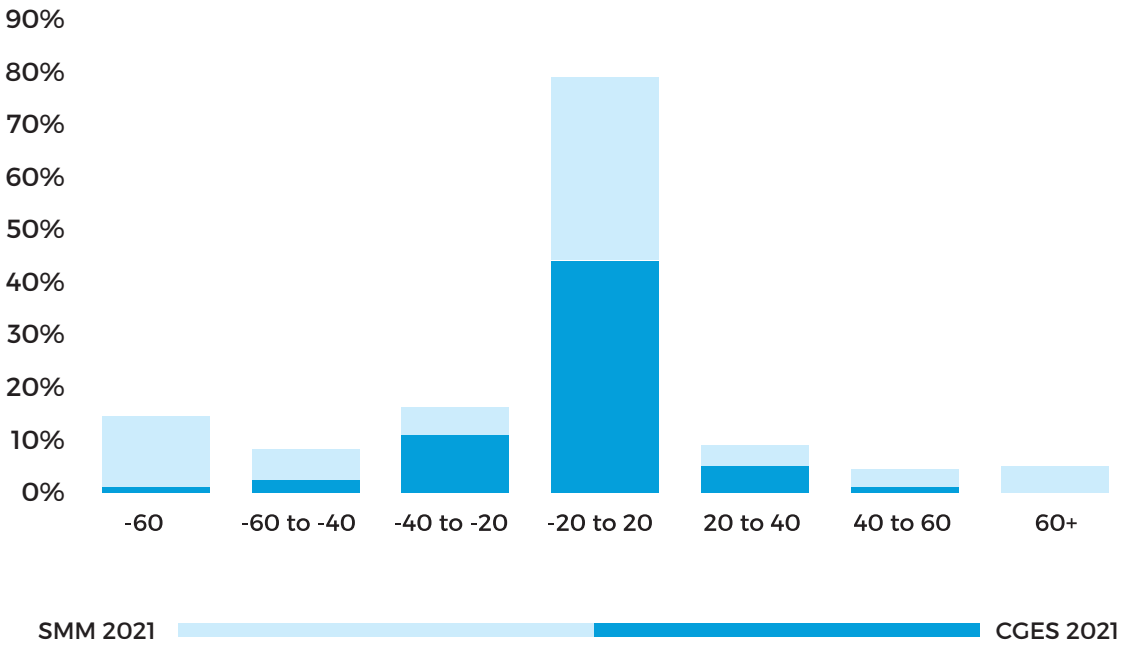
As during 2020, a particular challenge for the staff involved in system operation planning the was to provide preconditions for outages necessary for the implementation of projects of modernisation of protection and control in 110/35 kV substations and replacement of switching equipment in 110 kV plants. The importance of the project, which is confirmed by its financing from an EU grant, combined with the fact that works are being performed in 15 substations in our system with a prolonged duration of the COVID-19 pandemic, speaks enough about the complexity of the situation. However, regardless of the postponement of the agreed outage dates due to the consequences of the pandemic, as well as significant power flows in the system, there have been no bigger disruptions in power supply of users for this reason thanks to the efforts of CGES' competent services.

System regulation

CGES is obliged to regulate the power of exchange with the neighbouring electric power systems, limiting unexpected unbalances in the range from -20 MW to +20 MW. The diagrams below show the regulation error of CGES as a member of the SMM block, where a very good regulation of the control area of Montenegro (about 79% of the time the deviation was within the desired range) is shown. The quality of regulation of the control area managed by CGES is significantly above comparable regulations (e.g. the average quality of regulation of the SMM block, which, in addition to Montenegro, also includes Serbia and North Macedonia).

During 2021, fine adjustments were made to the control and management system, the application of which is expected to further improve the regulation of the Montenegrin electric power system. We expect that after the final adjustment, this implemented INOM (Imbalance Netting Optimization Module) option will relieve the regulation capacities and further improve the level of regulation. During 2021, the activities on the introduction of HPP Piva in the system of secondary regulation were completed.

Hourly control error distribution [MW] in 2021



In accordance with the EU Regulation 2017/2195 of 1 June 2021, within the synchronous area of Continental Europe, the application of a new ENTSO-E methodology for the settlement of unintentional deviations (Financial Settlement Δf, ACE, RP - FSkar), which will replace the previous mechanism for calculating compensation programmes, started.

Through preparatory activities, CGES created all the necessary preconditions for the implementation of the process of financial calculation of unintentional deviations.

Quality of electricity transmission service

CGES, in accordance with the Rules of Minimum Quality Requirements for Electricity Delivery and Supply, records and processes data relevant for service quality assessment. The purpose of these Rules is to encourage transmission system operators, distribution system operators and suppliers to reach and maintain the levels of general and individual indicators of the minimum quality requirements of electricity supply set out in these Rules.
The basic quality indicators related to the transmission system are the following:

- ·AIT (Average Interruption Time) - provides information on the average duration of interruptions in power supply to customers, parts of distribution systems and closed distribution systems connected to the transmission system, expressed in hours on a yearly basis;

- ENS (Energy Not Supplied) - provides information on undelivered electricity to customers, parts of distribution systems and closed distribution systems connected to the transmission system due to unplanned power supply interruptions, expressed in MWh on a yearly basis

The table below shows the quality indicators in 2020 and 2021:

Year	2020	2021	2021*
ENS (MWh)	1,492	6,933	2,007
AIT (h)	4.25	18.86	5.46

The amount of energy not supplied due to all interruptions in the supply to users, according to the Rules of Minimum Quality Requirements for Electricity Delivery and Supply, amounted to 6,933 MWh.

*The amount of energy not supplied, due to planned and unplanned interruptions, in cases when power supply to users was provided by using alternative directions of the transmission or distribution network, amounts to 2,007 MWh, while AIT amounts to 5.46 h
Compared to 2020, it is higher by 515 MWh, or 34.5%.

Namely, from the data on the amount of energy not supplied, it could be concluded that the quality of the energy transmission service to end system users has been drastically reduced. However, this is not the case, given the fact that, according to current regulations, ENS includes all energy that is not supplied from the transmission system to the distribution system, even in the period when the distribution system operator was able to compensate for these interruptions, i.e. to supply consumers from alternative directions. In 2021, this was especially pronounced due to the large number of planned works, which in cooperation with the distribution system operator were performed in this way - with the supply to end customers from alternative directions, on the modernisation of the network.

Considering that the prescribed deadline for fulfilling the obligations of the transmission system operator is 24 hours, we point out that only in 2.3% of cases (5 out of 218) this standard was not met.
It is important to point out that the ratio of energy not supplied and energy transmitted for 2021 amounts to 0.062%.

Through the improvement of both network infrastructure and operational procedures, CGES is constantly making efforts to improve the indicator of the general minimum of transmission quality.
Out of 165 unplanned interruptions, 58.8% was caused by force majeure i.e. by extreme meteorological conditions.

Total interruption time and energy not supplied	Planned	Unplanned
Total interruption time from the beginning of the year (min) 29.230 520.813	29,230	520,813
Total energy not supplied - ENS from the beginning of the year (MWh	0	2,007

Cross-border transmission capacities and market operations

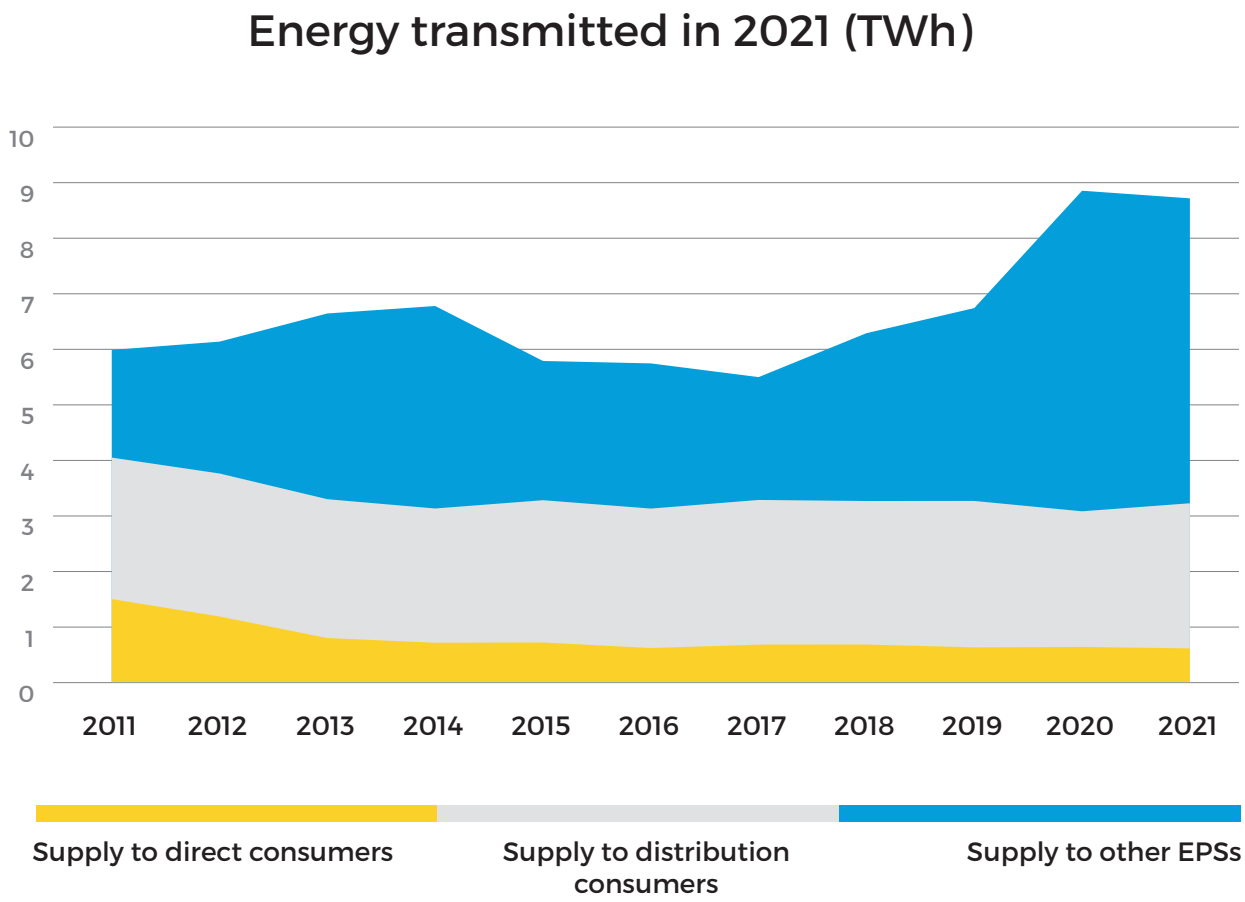
CGES, together with colleagues from Elektromreža Srbije AD Beograd (EMS), improved the Auctions Rules for Allocation of Transmission Capacities at the Border of the Control Areas of EMS and CGES, which were approved by the Energy Regulatory Agency in November 2021. Namely, the principle of "UIOSI" was introduced, which means that the allocated capacity from annual and monthly auctions, which is not used through the application of long-term cross-border exchange plans, is made available to market participants in daily auctions.
In addition, CGES, in cooperation with other competent operators and ENTSO-E, provided all technical and formal preconditions for energy exchange and allocation of cross-border capacities at the border with the Kosovo transmission system operator (KOSTT), which functions as an independent control area.
Thanks to this and by implementing the above Rules, CGES additionally improved the process of cross-border capacity allocation and provided the preconditions for increasing interest in cross-border transmission capacity allocation and thereby competitiveness. From the point of view of participants in the electricity market, the principle of "resale" is a more favourable option because there is a possibility of reimbursement due to unused capacity and a single (marginal) price at which market participants pay capacity reservation for individual auctions, thus improving the market environment. From a technical point of view, the above innovations have proved to be justified in terms of optimal utilisation of cross-border capacities.
In addition, CGES is an active participant in international working groups established for the purpose of coupling day-ahead electricity market, and gives a specific contribution through the activities of the Power Exchange, which it founded. In this regard, CGES recognised the need for mutual integration of markets in Southeast Europe, as well as with EU countries, given the close physical connection provided by the HVDC submarine cable between Italy and Montenegro.
As one of the special business processes launched in 2021, we emphasise the application of the FSkar methodology. Namely, in accordance with Regulation no. 2017/2195 of the European Union, within the Continental Europe synchronous area, on 1 June 2021, the application of the ENTSO-E methodology for compensation of unintentional deviations (FSkar) began, which replaced the previous mechanism for calculating compensation programmes. With the amendments to the SAFA agreement, the mechanism for the settlement of unintentional deviations (FSkar) has become binding for all ENTSO-E member states belonging to the Continental Europe synchronous area. We note that the implementation of this methodology has affected the entire process of quantitative calculation of deviations of balance responsible entities, the calculation of deviation prices, costs, revenues of transmission system operators when balancing the transmission system, as well as financial calculation and financial settlement.

Electric power indicators

Electricity transmitted

In 2021, CGES' network transmitted a total of 8,708.85 GWh of electricity for the needs of the Montenegrin electric power system and the transit of electricity for the needs of other systems and the interconnection.

As in 2020, we have had trends in record amounts of total energy transmitted by CGES through its transmission system, as shown in the following diagram:

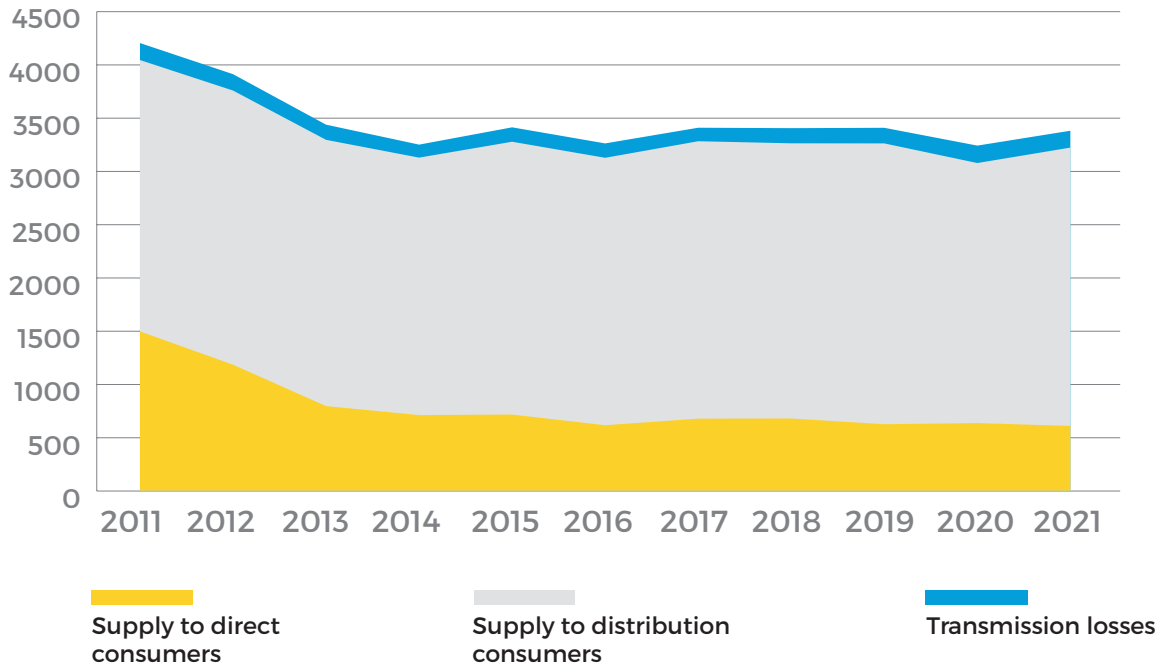


Electricity consumption

In 2021, the total electricity consumption in Montenegro amounted to 3,378.31 GWh, which by 4.3% higher than in 2020, and was caused by the increase in consumption at the distribution level after the decline caused by the COVID-19 pandemic.

Consumption			
Year	2020	2021	Difference
Supply to distribution consumers	2,441,285	2,613,010	7.0%
Supply to direct consumers	633.755	606.892	-4.2%
Transmission losses	163.589	158.412	-3.2%
Total	3,238.63	3,378.31	4.3%

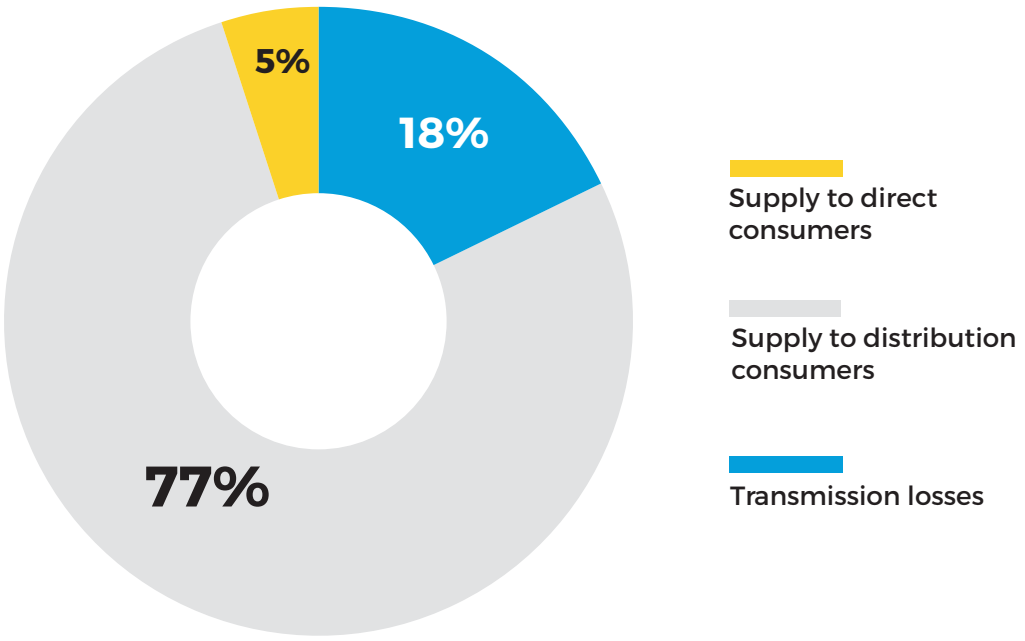
Total electricity consumption in the period 2011 to 2021(GWh)



With the commissioning of the HVDC submarine cable, there was an increase in electricity transit through the transmission system of Montenegro. However, in 2021, transit was lower than in 2020 by 10.62%, which caused lower transmission losses by 3.2%.

Higher utilisation of the network of the highest voltage level continued in 2021, so the rate of transmission losses compared to the total energy transmitted in 2021 was 1.79%, which is approximately the same as in 2020 when it had value of 1.82%.

Share by type of consumption in 2021



From the diagram it can be concluded that almost 4/5 of the total electricity consumption refers to customers at the distribution level.

The maximum load of the Montenegrin transmission network was recorded on 2 July 2021, when import amounted to 7,650.935 MWh, with a transit of 9,449.486 MWh. The maximum consumption value of 586 MW at 14h was realised on that day.

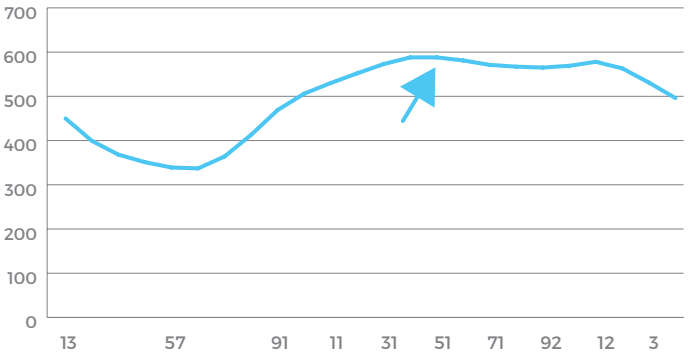
Below is an overview of the maximum/minimum system load as well as the achieved maximum and minimum consumption on a daily basis in 2021.

In 2021, peak consumption in Montenegro was 586 MW, compared to 547 MW in 2020.

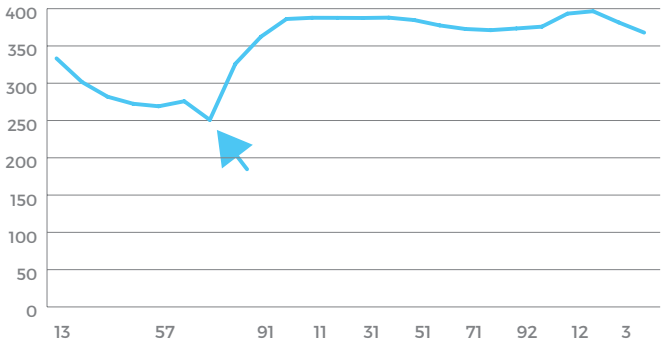
Maximum power			Maximum daily consumption	
MW	Hour	Day	MWh	Day
586	14	29.07.2021	11,800.87	29.07.2021
Minimum power			Maximum daily consumption	
MW	Hour	Day	MWh	Day
200	7	05.06.2021	6,899.21	22.05.2021

The minimum consumption of 200 MW was recorded on 5 June 2021 during the 7th hour.

Maximum load - 29.07.2021

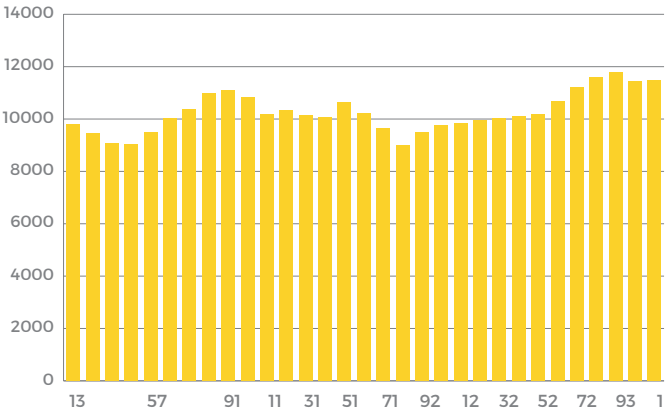


Minimum load - 05.06.2021

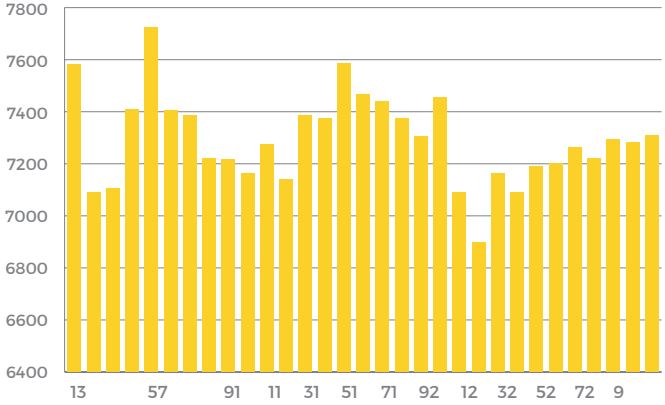


The highest daily consumption was realised on 29 July, while the lowest on 22 May 2021.

Daily consumption 29.07.2021

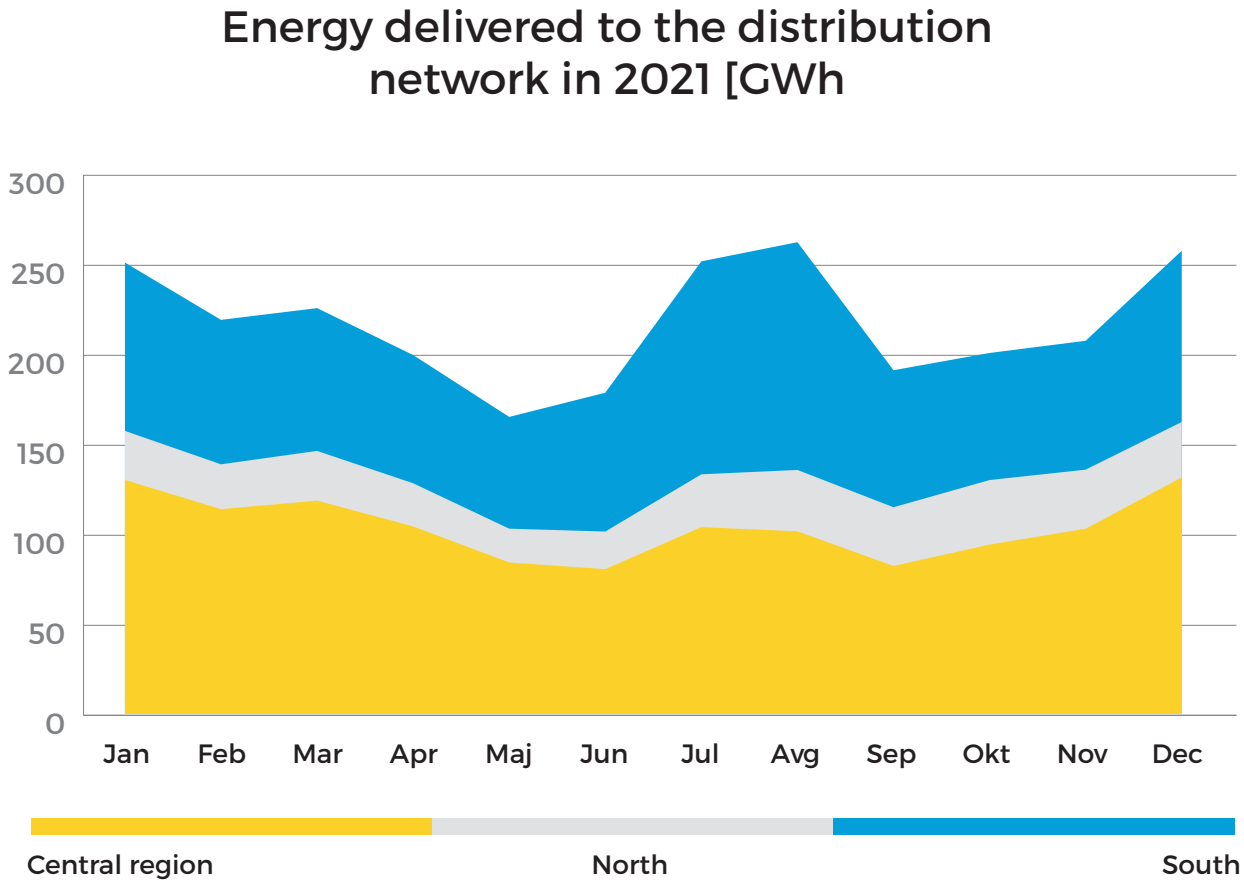


Daily consumption 22.05.2021



Electricity delivered to the distribution network

Unlike in 2020, when due to the pandemic (COVID-19) a large decline in consumption at the distribution level was reflected especially in the summer months of July-August, in 2021 we recorded the usual maximum consumption on the coast with a characteristic "peak" in this period of the year. The trend of energy delivered to the distribution network is presented in the following diagram:

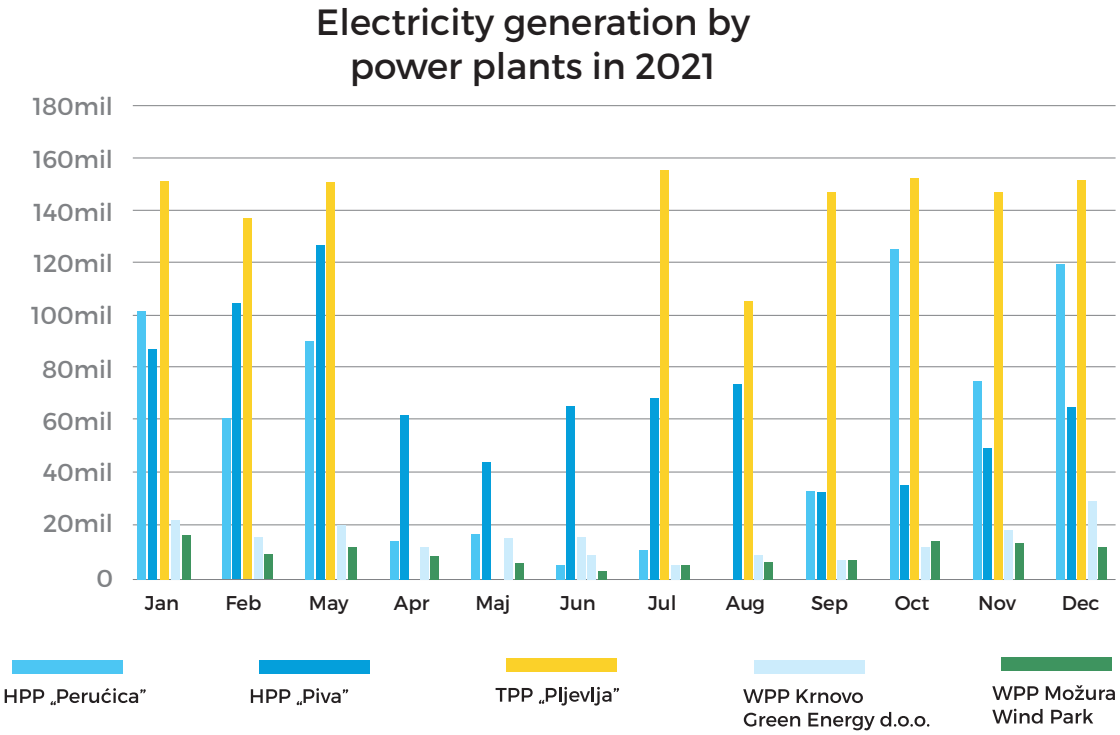


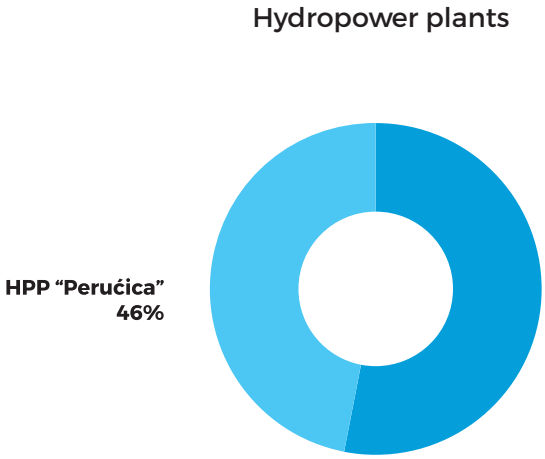
Electricity generation

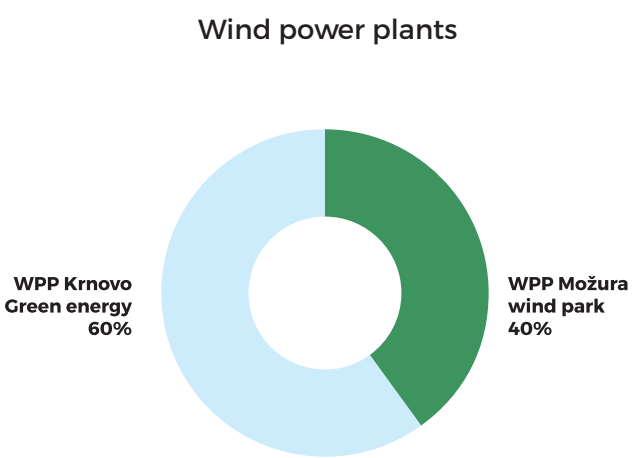
In 2021, 3,480.57 GWh of electricity was injected into the transmission system from generation facilities, of which 1,827.49 GWh was generated by hydropower plants, 1,332.61 GWh by thermal power plants and 320.47 GWh by wind power plants.

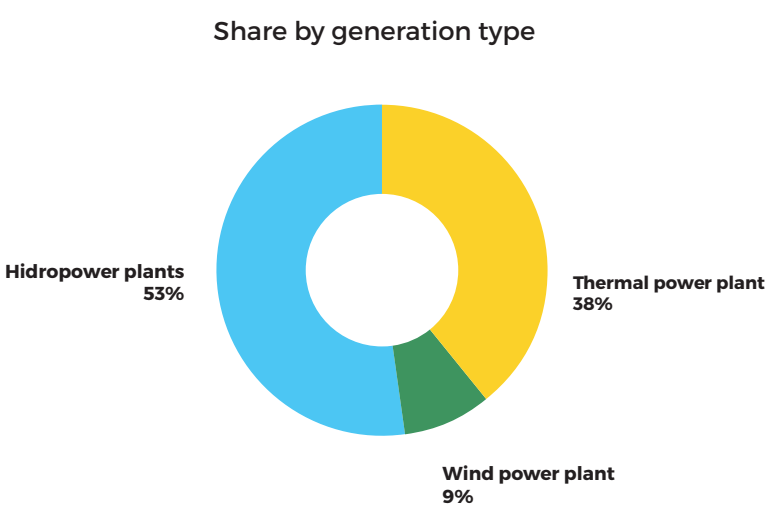
Electricity generation			
POWER PLANTS	2020	2021	Difference
HPP Perućica	672.083	989.013	47%
HPP Piva	657.320	838.476	28%
TPP Pljevlja	1,487,463	1,332.613	-10%
WPP Krnovo Green Energy d.o.o.	180.685	192.186	6%
WPP Možura Wind Park	126.183	128.278	2%
Total:	3,123.73	3,480.57	11%

Electricity generation by generation facilities connected to the transmission system of Montenegro by months in 2021 is shown in the following diagram:





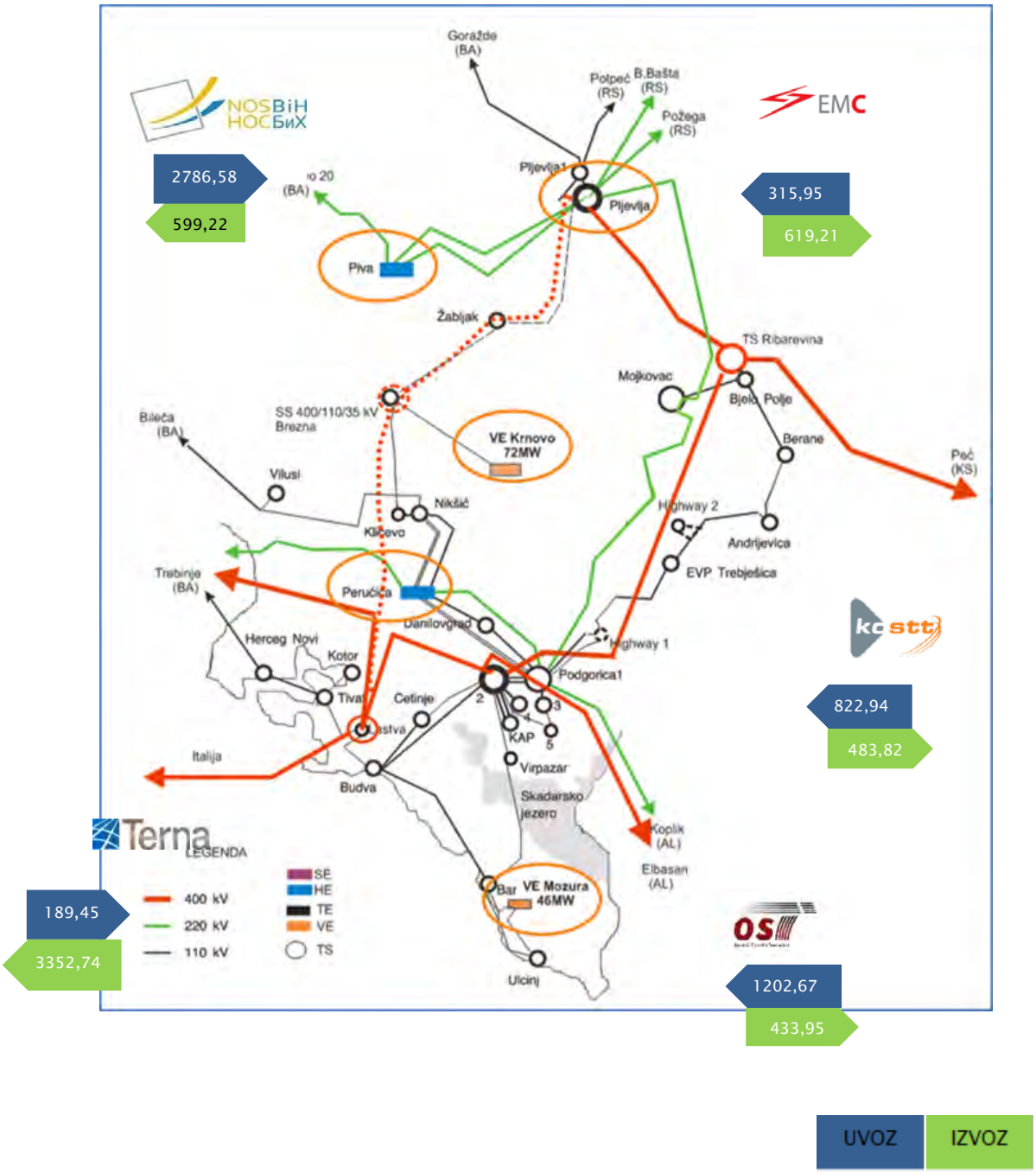




The growth trend of electricity generated from renewable sources continued in 2021 and in comparison with 2020 it amounted to 4.43 percent in absolute amount. This means that wind power plants are playing an increasing role in meeting the needs of consumers, which due to the variability of generation requires more from the transmission system operator the necessary regulatory power and balancing energy.

Electricity exchange by borders

Below is a diagram of the Montenegrin electric power system with the exchange of electricity by borders (GWh) in 2021.



Investments

The 2021 Investment Plan envisaged activities on the implementation of 54 projects. Investments were implemented in the amount of € 24.742.000. Investments were realized in the absolute amount of about € 14.3 million. Investing in investments that were implemented or partially implemented are related to:

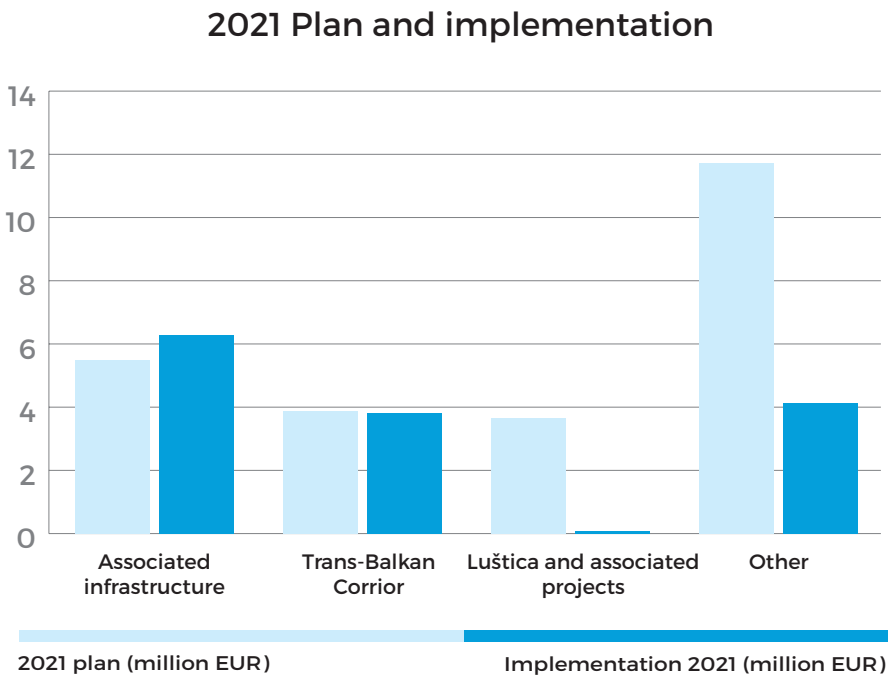
▸ Associated infrastructure that includes construction of SS 400/110/35 kV Lastva, OHL 400kV Lastva-Čevo and OHL 400kV Čevo-Pljevlja;

▸ Trans-Balkan Corridor that in 2020 includes the construction of SS 400/110/35 kV Brezna, construction of OHL 400 kV Pljevlja 2-Bajina Bašta, reconstruction of the protection system in the transmission network and replacement of HV equipment in CGES' substations;

▸ Luštica and associated projects that include the construction of SS 110/35 kV Luštica with connection to 110 kV transmission network, reconstruction of SS 110/35 kV Tivat, reconstruction of 110 kV OHL Lastva-Tivat and construction of OHL 110 kV Lastva-Kotor;

▸ Other projects representing investments in modernisation and new projects.

Implementation vs the 2021 Plan for the above defined project categories is shown in the below diagram:



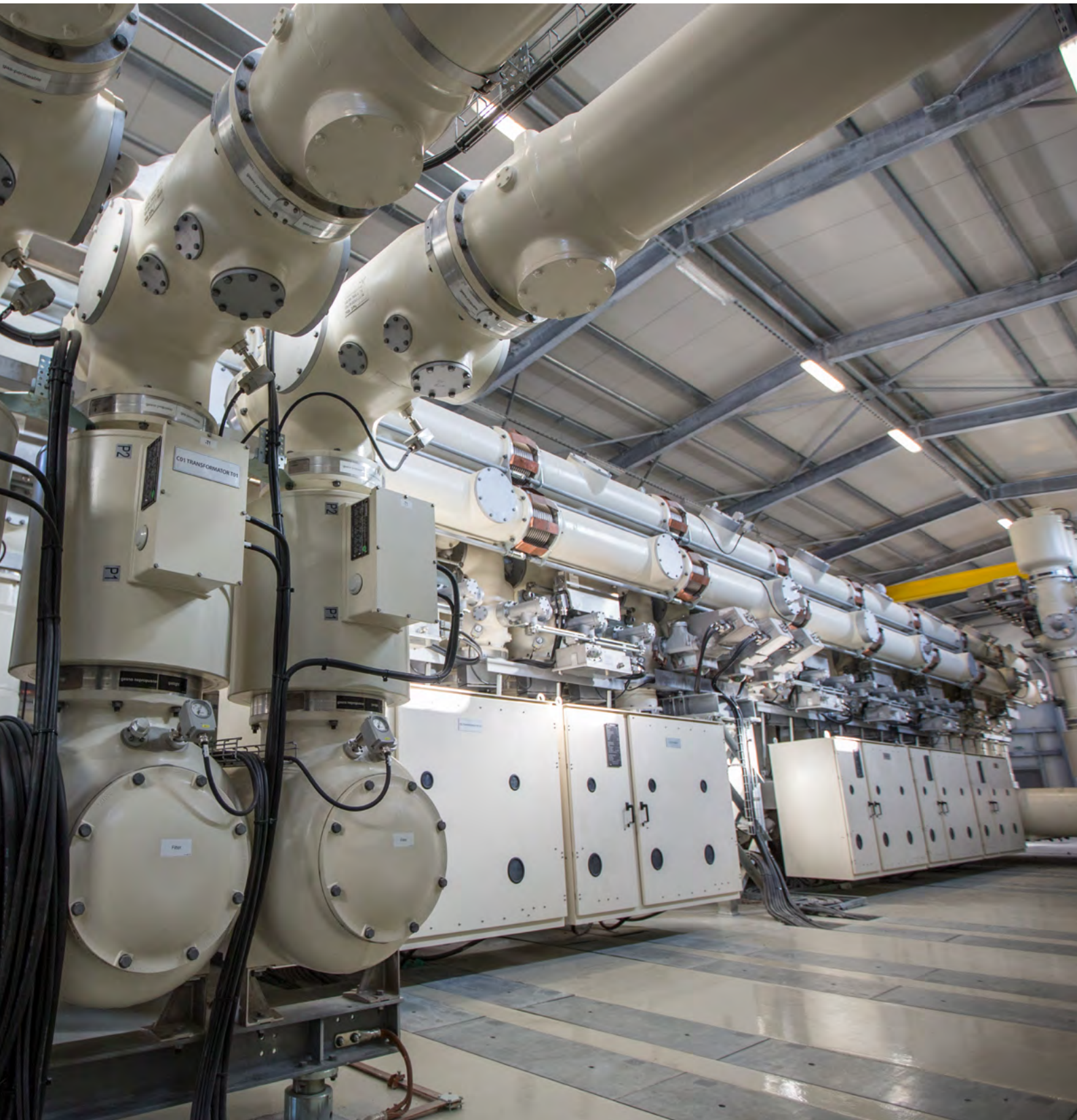
During the past year, activities continued on the construction of the overhead line Čevo-Pljevlja, but activities on the Trans-Balkan Corridor project were intensified, which will connect the Balkan countries, from Romania through Serbia, BiH and Montenegro, with Italy. CGES received a European Union grant of 25 million euros. It should be noted that at the end of 2021, the 400 kV overhead line Lastva-Čevo-Pljevlja - section Čevo-Brezna-Bukovica, 72 kilometres long, was energised.
Within this project, a significant part of the activities on the reconstruction of 15 transmission substations in the part of replacement of high voltage equipment, reconstruction of relay

protections and control has been completed. The main benefits of this subproject are safer and more reliable operation of the plant, reduction of the number and duration of unplanned power outages, extension of the life of the main elements of the transmission network, and reduction of maintenance costs. With the installation of new microprocessor protection devices, the preconditions for remote control of switching equipment from the competent dispatch centre are achieved, as well as higher analytics in the company for streamlining maintenance plans, but also other types of analysis and studies. The previous year was also characterized by significant investments in the replacement and revitalization of large power transformers, with special emphasis on the procurement of 400/110 kV power transformers, 300 MVA in SS Podgorica 2, and revitalization of insulation systems for several transformers (SS Pljevlja 2, SS Virpazar and SS Cetinje), which significantly increased the reliability of power supply of the subject areas. Among other smaller investments, necessary purchases of diesel electric generators 60 kVA for SS Andrijevica and SS Vilusi, purchase of 35 kV circuit breakers and of grid analysis software for development plans and servers and equipment for EPS software in RDC were made.
The realization of investment projects in the year behind can be considered successful, especially having in mind the impact of the coronavirus pandemic and the specific conditions in which many activities were carried out. The realization of the project was slowed down by drastic changes that took place on the market in terms of increasing the prices of all materials and works, so there were no offers in part of the already announced public calls. Therefore, the realization of many projects was endangered, while for some signed contracts, requests were received to increase the contracted value. Delays in the manufacture, transport and delivery of equipment, in addition to the previously listed problems, inevitably required new solutions that significantly affected the dynamics of the implementation of planned activities. In addition to the pandemic, a major challenge is the slow resolution of property legal issues and the consequent provision of conditions for the execution of works. These problems, due to circumstances beyond the competence of CGES, negatively affect the implementation of the planned, especially when it comes to significant infrastructure projects. Nevertheless, CGES has one successful business year behind it.

Further development

CGES will also in the following period continue to invest in the construction and modernisation of the transmission network and facilities which will make the transmission network in Montenegro stronger, more reliable and more secure, thus guaranteeing a quality electricity transmission service and better accessibility for current and future users.
In addition to the final activities on the associated infrastructures project of the Montenegro-Italy submarine interconnection, CGES expects intensive activities on the Trans-Balkan Corridor project, but also activities on the construction of SS 110/35 kV Žabljak and the reconstruction and extension of SS Pljevlja 1, which in terms of scope of work and value of investment stand out from the category of other investments planned for 2022. CGES participates in solving the regional problem of high voltages in the Western Balkans region, so it will make an adequate contribution through the project of installation of a variable shunt reactor in SS Lastva. For the next period, the reconstruction of 110 kV overhead lines is planned, with an emphasis on the coastal region, to ensure the reliability of power supply at the highest level and to create optimal conditions for connecting new renewable energy sources. Following the needs for electricity, which are increasing day by day, CGES has in its development plans the construction of a number of new substations and lines (the most significant new project that will commence in 2023 is the construction of SS 110/10 kV Bečići). In addition to the above activities on the reconstruction and construction of electric power infrastructure, great attention is paid to the project of procurement and implementation of a new information system that will provide better, more accurate and more efficient management of all company resources to best meet

all necessary requirements of today's complex business. Special attention is paid to the smart grid-related projects, so to this purpose it is planned a procurement and implementation of systems for integrated work planning and power system reliability assessment, which will result in improving the planning process of all activities on transmission system elements through operational reliability. For the purpose of better maintenance of existing facilities and faster operations, as well as preventive response, it is planned to purchase software for monitoring the condition of vegetation along overhead line routes, while PLS Pole and PLS Cadd software procurement of which is also planned will make a special contribution to obtaining reliable information on technical performance, condition of existing facilities. In conclusion, there is a clear tendency of constant modernization and improvement of the quality of functioning of elements in all segments within the scope of work of this business entity.



Normative and regulatory framework

In order to continuously **improve the normative and regulatory framework,** during 2021, CGES continued with activities arising from the obligation to **harmonise national legislation with the acquis communautaire**, and especially in the part of the implementation of the Third Energy Package of the European Union, which envisages further strengthening of the energy market, providing greater protection to consumers and encouraging the development of competitiveness.

Having in mind the amendments to the Energy Law from 2020, in the reporting year, **CGES continued with the activities of harmonisation of the Transmission Grid Code (Code) and the Methodology for Establishing the Electricity Transmission System Connection Fee (Methodology)** with the new legal solutions. Namely, after the public hearing procedure, the draft Code was submitted to the Energy and Water Regulatory Agency (ERA) for approval; the Code included amendments that were necessary due to the amended legal framework, such as the introduction of the National Energy and Climate Plan, as well as the procedure for connecting new users, but also the amendments necessary to comply with the new ENTSO-E Methodology for financial settlement of unintentional deviations (Fskar methodology). In addition, after the public hearing, ERA received the draft Methodology, which, in accordance with the new legal solutions, changed the method of establishing the transmission system connection fee in order for the Methodology to consider the legal provision that the connection fee be the same for connections of the same capacity at the same voltage level.

In the regulatory-normative part, in addition to the above, it is important to point out that in May 2021, **the ERA Board adopted new Rules for Developing and Monitoring the Implementation of Ten-Year Development Plans of Electricity Transmission System**. Moreover, 2021 was marked by additional normative activities to improve the **Rules for auctions for the allocation of transmission capacities at the border of control areas of EMS and CGES approved by ERA**.

When it comes to business operations, CGES is an economic entity whose revenues are determined by ERA. Namely, the regulatory allowed revenue of CGES, in accordance with the regulatory-normative framework, consists of operating costs, depreciation and return on the regulatory asset base.

Return on assets is the part of revenues generated based on invested capital and is calculated as the product of the rate of return on capital and the regulatory asset base. The rate of return on capital is set for the regulatory period as a three-year weighted average cost of capital, which includes the cost of equity and the cost of borrowed capital, weighted according to their share in the total capital of the operator. The regulatory asset base is the value of assets in relation to which the return on assets for the regulatory year is calculated and consists of fixed assets, investments and working capital.

Depreciation for regulatory purposes is set based on the value of fixed assets, the useful life of fixed assets and the application of the proportional depreciation method. The useful life of fixed assets is set based on the technical and economic useful life of different groups of fixed assets, which was used in the last evaluation accepted by ERA.

Operating costs for energy activities are recognised if they are techno-economically justified and in the function of performing the transmission activity. For the purposes of setting revenues and in order to create conditions for increasing efficiency, operating costs are divided into:

1. controllable operating costs (personnel costs, fringe benefits and other personal expenses, material costs, costs of production services, intangible costs other than taxes, contributions and entertainment costs, other expenses);

2. partially controllable operating costs (cost of electricity procured to cover justified transmission system losses);

3. non-controllable operating costs (costs related to real estate taxes, fees and charges in accordance with the law, costs for the provision of ancillary and balancing services, costs incurred based on international agreements, environmental protection costs, costs related to remuneration for the operation of the market operator, other non-controllable operating costs in accordance with the law).

The ERA's Decision on setting regulatory allowed revenue and prices for CGES for 2021 set the regulatory allowed revenue which is transposed into tariffs in the amount of €29.1 million. During 2021, the ERA Board adopted a Decision on setting the amount of adjustments of regulatory allowed revenue and prices for the use of electricity transmission system for 2020, which set the amount of adjustment of regulatory allowed revenue in the amount of €5.7 million in favour of electricity transmission system users.

In accordance with the legal authorities, in 2021, ERA supervised the operations of CGES and conducted regular controls of investment plan implementation, as well as the realisation of energy and economic values based on which the regulatory allowed revenue was set.

Financial Statements

Profit & loss statement

The 2021 financial statements show a net income of €16.9 million.

Revenues amount to €76.5 mln and they mainly refer to transmission network use (€23.0 million), revenues from balancing services and system services (€22.9 million), revenues from cross-border capacity allocation (€18.6 million), revenues from fees for transmission losses (€9.8 million) and other revenues (€2.1 million).

Operating costs were realised in the amount of €48.1 million and mainly refer to costs of balancing and system services (€23.5 million), transmission losses (€9.4 million), personnel costs (€6.6 mln) and other costs including costs of material and third party costs (€8.7 million).

EBITDA (earnings before interest, taxes, depreciation, and amortization) amounts to €28.4 million with a margin of 37%.

P&L			
€ mln	**EoY 2021**	**EoY 2020**	**2021 vs. 2020**
Transmission revenues	23.0	19.8	3.2
Transmission losses	9.8	10.9	(1.1)
Congestion revenues	18.6	11.9	6.7
Ancillary system balancing revenues	22.9	6.0	16.9
Other revenues	2.1	2.4	(0.3)
Total Revenues	**76.5**	**51.1**	**25.4**
Personnel	6.6	6.0	0.6
Material	0.2	0.2	(0.0)
Third party	2.4	2.1	0.3
Ancillary system balancing costs	23.5	7.2	16.3
Other	6.0	3.2	2.8
Transmission losses	9.4	9.2	0.1
Opex total	**48.1**	**27.9**	**20.2**
EBITDA	**28.4**	**23.2**	**5.2**
Margin	37%	45%	-8%
D&A	9.3	9.1	0.2
EBIT	**19.1**	**14.0**	**5.0**
Margin	25%	27%	-3%
Net Financial expenses	**0.3**	**0.3**	**0.0**
Financial revenues	0.6	0.5	0.0
Financial expenses EBRD Lastva-Pljevlja	0.2	0.2	0.0
Financial expenses KfW Lastva-Pljevlja	0.2	0.2	(0.1)
Financial expenses KfW Luštica	0.1	0.1	0.0
Financial expenses EU Grant	-	-	-
Financial expenses Revolving facility	-	-	-
Financial expenses other debt	0.5	0.4	0.1
EBT	**18.7**	**13.8**	**5.0**
Taxes	1.9	1.3	0.6
NET INCOME	**16.9**	**12.5**	**4.4**

Revenues from transmission network use:

- **Revenues from distribution:** amount to €13.4 million and are higher vs 2020 (+€1.5 million);
- **Revenues from producers:** amount to €9.7 million and are higher vs 2020 (+€1.7 million) due to higher active energy.
- **- Fee for transmission network losses**: lower vs 2020 (-€1.1 million) as result of lower ITC revenues.

Congestion revenues: : significantly higher vs 2020 (+€6.7 million) mainly as a result of greater interest of participants in the electricity market due to the allocation of cross-border capacities at the border Montenegro - Kosovo, which resulted in higher prices at the border with Serbia (+€4.6 million) due to less available transmission capacity, as well as higher revenues at the borders with BiH (+€1.9 million) and Italy (+€0.4 million), compensated by lower revenues at the border with Albania (-€0.2 million).

Revenues from balancing and system services:significantly higher vs the previous year (+€16.9 million), mainly due to higher revenues for energy supplied based on the tertiary control service – COTEE (Montenegrin Electricity Market Operator) and the application of the new methodology for the financial settlement of unintentional deviations of control areas in the entire interconnection (FSkar) from June 2021.

Operating costs: higher vs the previous year, +€20.2 million (+72.4%), mainly due to differences in the following items:

- **ancillary, system and balancing services (+€16.3 million);**
- **costs of material, third party services and other (+€3.2 million);**
- **personnel costs (+€0.6 million);**
- **transmission network losses (+€0.1 million).**

Depreciation: in line with the previous year.

Net financial costs: in line with the end of 2020.

Income tax: was calculated as 9% of taxable income. The realisation is higher vs the previous year (+€0.6 million) as a result of a significantly higher tax base.

Net income: the realised net income of the company amounted to €16.9 million and is significantly higher vs the previous year (+€ 4.4 million) as a result of a significant increase in revenues from cross-border capacity allocation.
We note that Crnogorski elektroprenosni sistem issued the first electronically fiscalized invoice in accordance with the new Law on Electronic Fiscalization, thereby already harmonising its business operations with the said law. This is, above all, a step forward in the transparency of business operations and fiscal responsibility of our company.

Balance sheet

Balance sheet			
€ mln	**EoY 2021**	**EoY 2020**	**2021 vs. 2020**
Assets	249.4	245.0	4.5
Working Capital	(26.1)	(20.9)	(5.2)
Funds	4.2	3.8	0.4
Net Invested Capital	**219.1**	**220.2**	**(1.1)**
Shareholders Equity	196.9	187.5	9.4
Paid in capital	155.1	155.1	-
Reserve	0.2	0.2	-
Carried forward results	42.1	32.7	9.4
Net income from previous period	32.7	20.3	12.5
Current net income	16.9	12.5	4.4
Dividends	(7.5)	-	(7.5)
Purchased own shares	(0.6)	(0.6)	-
Net Debt	22.2	32.8	(10.5)
Cash	25.5	22.4	3.2
Long term debt	47.8	55.1	(7.3)
EBRD Lastva-Pljevlja	34.1	37.7	(3.7)
KfW Lastva-Pljevlja	7.5	9.9	(2.4)
KFW (Luštica)	0.2	0.2	-
Revolving facility	-	-	-
Other debt	6.0	7.3	(1.3)
Short term debt	-	-	-
Dividends	-	-	-
Total liabilities	**219.1**	**220.2**	**(1.1)**

Net financial debt

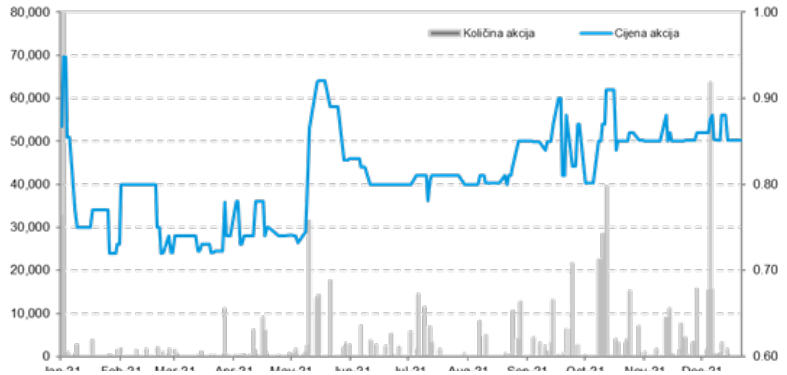
Compared to the end of 2020, the realisation in 2021 is lower by €10.5 million due to the repayment of EBRD and KfW loans (-€7.6 million), as well as repayments based on old loans (-€1.4 million), partially compensated by investments in associated infrastructure (+€1.5 million), while the level of total cash is higher (+€3.2 million) compared to 2020 due to cash generation from operational activities.

Cash flow

Cash flow		
€ mln	**EoY 2021**	**EoY 2020**
Initial balance	**22.4**	**17.8**
EBIT	19.1	14.0
Taxes	(1.9)	(1.3)
Depreciation	9.3	9.1
Delta WC	5.2	4.9
Delta funds	0.4	0.4
Delta capex	(13.8)	(15.1)
Total Operational	**18.3**	**12.0**
Financial expenses	(0.3)	(0.3)
Variation of EBRD loan	(3.7)	(3.1)
Variation of KfW loan	(2.4)	(2.8)
Variation of KfW loan-Luštica	-	0.2
Revolving facility variation	-	-
Current Debt increase/amortization	(1.3)	(1.6)
Total Financial	**(7.7)**	**(7.6)**
Capital injection/reduction	-	0.2
Dividends	(7.5)	-
Purchased own shares	-	(0.0)
Remittances/injection	**(7.5)**	**0.2**
Total	**3.2**	**4.6**
Final Balance	**25.5**	**22.4**

Stock exchange membership and CGES' shares

As of 7 May 2012, CGES' shares are quoted on the A list of the Montenegro Stock Exchange, which is a confirmation of the quality of the securities and, indirectly, a number of preconditions that the company meets in terms of corporate culture.
The curve below shows the trend of the company's shares, which indicates a slight decline in price from €0.95 to €0.85 per share at the end of 2021, primarily due to the purchase of additional 5% of share capital by Elektromreža Srbije in early 2021, which affected the price increase at the beginning of the year.



Trend of CGES' shares

Based on the realised profit in 2020, by a decision of the Shareholder meeting, CGES' shareholders were paid a dividend in the total amount of €6,803,022.41.

Information And Communication Technologies

Optical telecommunication infrastructure – foundation of a modern network

FThe functioning of a modern transmission system operator today cannot be imagined without modern technologies in the field of telecommunications. CGES telecommunication system consists of passive optical cable network mostly realized with OPGW (Optical Ground Wire) technology, active multiplex SDH/PDH and IP/ Ethernet equipment, as well as PBX system for business and operational telephony.

The telecommunication network connects all CGES facilities and serves for the transmission of the control, measurement, and monitoring data and exchange of voice and digital data.

The telecommunications network is also used to exchange real-time data on the operation of European countries' electricity systems, with the aim of ensuring the security of the electricity sector in Europe. The development of the CGES optical network is in line with the development of the networks of neighbouring transmission system operators.

By this infrastructure, CGES is also connected to neighbouring systems, and through them to all TSOs in ENTSO-E, exchanging data in real time using the PCN and Electronic Highway network.

CGES' optical network, as of 31 December 2021

Also, the exchange of operational data was realized with domestic partners EPCG, CEDIS, WPP Krnovo, WPP Možura and ŽICG.

Implementation of modern digital technologies in the field of power system control and monitoring, as well as harmonization with international practices and partners, increase the requirements in terms of technology, digital flow and capacity of active telecommunications equipment.

The work on the study, which began in 2021, aims to determine the directions of development of telecommunications in CGES and the full transition to IP technology for the transmission of operational and business data.

The optical transmission network with it configuration and capacities, on the one hand, meets the existing needs in terms of transfer of information of CGES's complex technical and business system, and on the other hand, represents a potential commercial resource in the telecommu-

nications market of Montenegro. CGES is an operator registered to provide optical fibre lease services, and currently leases 469 km of optics.
During 2021, an agreement was signed with the Broadcasting Centre on the provision of radio- redundancy services. This ensures that all CGES facilities have communication redundancy (optical or radio) in order to improve the availability of system control.
In addition, the Company's plan is that each new and reconstructed overhead line has an OPGW cable instead of a ground cable, as well as that underground optical cables are laid during the construction of high-voltage cable lines. In this way, our optical network will be expanded and redundancy will be provided on existing routes.

Within the initiative Balkans Digital Highway launched by the World Bank, in which, besides CGES, three more electricity transmission companies from the region (KOSTT, OST and MEPSO) participate, work on the development of a feasibility study on the available optical infrastructure sharing continued. This study consider the advantages of a joint commercial approach of regional transmission system operators in the telecommunications market and propose a preliminary design of the future network, taking into account the results of the market analysis for each TSO separately.

Modern information systems

During 2021, in order to increase the efficiency of the Company, modernisation and digitalisation of corporate business processes, several capital projects in the field of information technology were implemented.

The implementation of the new ERP (Enterprise Resource Planning) system (Microsoft Dynamics 365 Business Central solution) stands out with its scope, importance and complexity the implementation of which was completed and the system put into operation in the first half of 2021, after which work on the implementation of the DMS (Document Management System) began. In order to ensure business continuity in the event of natural and other disasters and high-level security incidents, the DR Data Center (Disaster Recovery Data Center) was implemented in 2021. In this way, employees of the Company were provided with uninterrupted access and use of business information systems in case of any of the above unforeseen circumstances, in accordance with the adopted recovery strategy - Disaster Recovery Plan and Business Continuity Plan. After the first phase of the project in which the necessary preconditions for the commissioning of the DR Data Center were created, last year hardware and software were implemented at a remote location and replicas of key business information system services were implemented.

The development of existing and implementation of new business and technical information system services required the necessary server and network infrastructure that can meet the needs of these systems. During 2021, a new hardware infrastructure for EPS software was procured in the Reserve Dispatch Centre (RDC) and a virtualization platform was implemented on which all business information system services were migrated. The substations were also integrated into the business computer network of CGES.
Since CGES is recognised as the owner of critical infrastructure, one of the most important aspects in the field of information technology is the security of IT infrastructure and its protection

from unwanted external and internal attacks. During 2021, the implementation of a modern WAF solution was realized, thus achieving a higher degree of protection of application services from external threats.
During 2021, the implementation of adopted information security policies and procedures based on the principles of the ISO27001 standard began, thus establishing the information security management system - ISMS. According to the request of ENTSO-E, an external audit of the established ISMS was carried out in accordance with the requirements of the security plan of OPDE-ATOM IVS. The result of the audit was positive, which further motivates to continue to improve the ISMS system and raise employee awareness of the importance of information security. The plan is that CGES be certified in the foreseeable future according to the requirements of the internationally recognized standard ISO/IEC 27001:2018. At the end of the year, an external penetration test of CGES corporate information systems was performed, which also gave excellent results.

Activities within the working groups continued: USEA/UCSI Cybersecurity Working Group and Cybersecurity Coordination Group of the Energy Community of Southeast Europe. In addition to the mentioned activities, in the situation of the epidemic (COVID-19), all CGES' employees who needed it were provided with conditions for work from home, via a secure VPN connection for remote access to the Company's IT systems. At the same time, various conference software and other tools for holding online meetings were put into operation.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International Cooperation

Law on Cross-Border Exchange of Electricity and Gas stipulates that cross-border electricity transmission may be performed by a transmission system operator (TSO) that has an established system of international cooperation.

In these terms, CGES realises international cooperation to strengthen capacities and apply the best international practices in the field of energy, and further position CGES as a modern company that follows European trends from its business domain.

During 2021, CGES' representatives continued their activities within their participation in international working bodies and organisations. Despite the coronavirus pandemic, which has greatly changed the way and organisation of work, the planned international activities were mainly realised through electronic communication channels.

Membership in ENTSO-E

Crnogorski elektroprenosni sistem AD Podgorica maintains continuous cooperation with the European transmission system operators - ENTSO-E (European Network of Transmission System Operators for Electricity), which today counts 39 members from 35 European countries. The aim of cooperation, declared in the Regulation 714/2009 of the European Parliament as of 13 July 2009, is the promotion of establishing and facilitating the functioning of regional and internal electricity market of the European Union, cross-border trade, as well as ensuring optimal control, coordinated operation and appropriate technical development of the European electricity transmission system.

During 2021, CGES' representatives participated in the work of the ENTSO-E Assembly, the System Development Committee, the AIM (Asset Implementation Management) Group within the System Development Committee, the Data and Models Subgroup, Southeast European Cooperation Initiative Transmission System Planning Project (SECI TSP), the Research, Development and Innovation Committee, Development and Innovation Committee), the System Operation Committee (SOC) and the Regional Group Continental Europe (RG CE), Group for Network Models and Forecast Tools (NMFT), as well as Subgroups for SPD (System Protection & Dynamics).

Membership in Med-TSO

The Association of the Mediterranean Transmission System Operators – Med-TSO is founded with the aim of promoting the formation of the Mediterranean energy market, ensuring its optimal functioning by defining common methodologies, rules and practices for optimizing the operation of existing infrastructure and facilitating development of a new one. CGES as a co-founder of Med – TSO association, which has 21 members from 19 MED countries, endeavours to contribute to implementation of declared objectives, making of decisions and work of this association.

During 2021, in addition to attending Med-TSO Assembly, CGES' representatives participated in monitoring and work of the Technical Committee for Regulations and Institutions, Technical Committee for Planning, Technical Committee for Operations, Technical Committee the Economic Studies and Scenarios as well as in the Know-how Exchange Technical Committee.

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Participation in the Work of the Energy Community

The Energy Community is an international organisation dealing with energy policy. The Community was established by signing a Treaty in October 2005 in Athens. The Treaty entered

into force in July 2006, connecting the European Union, on the one hand, and the countries of Southeast Europe and the Black Sea Region, on the other. The main goal of the Community is to expand the internal electricity market from the European Union to the countries of Southeast Europe and the Black Sea Region based on legally binding regulations.

Montenegro is one of the contracting parties of the Energy Community, and during 2021, CGES' representatives participated in the work of the Coordination Group for Supply Security- Electricity Subgroup, the Central and South-Eastern European Gas Connectivity Initiative (CESEC), and the Working Group for the Projects of Energy Community Interest (PECI) and Projects of Mutual Interest (PMIs) Electricity Working Group), as well as in the work of the DSO2TSO Working Group.

Other international activitiesi

Electricity Market Initiative (EMI)

During 2021, CGES' representatives also participated in the Electricity Market Initiative (EMI). This initiative was launched in July 2018 by USEA and USAID with the aim of improving the integration and operation of the electricity markets in Southeast Europe. Representatives of 15 companies from 11 SEE countries participate in the work of the EMI Working Group. Participation in the EMI Working Group contributes to better development of long-term plans, fulfilment of regulatory requirements, acceleration of market integration and development of regional day-ahead and long-term market.

Know-how Exchange Programme (KEP)

CGES' representatives actively participated in the Know-how Exchange Program (KEP) implemented by the Central European Initiative (CEI), through participation in a large number of trainings that addressed topics such as processes related to electricity market coupling, opportunities to connect markets of countries that are not members of the EU with EU countries, market coupling costs as well as other topics related to the electricity market.

AIMS Working Group

CGES, through its representatives, participates in the work of the AIMS Working Group (Albania, Italy, Montenegro, Serbia), which aims to create preconditions that will enable the coupling of the electricity markets of Albania, Italy, Montenegro and Serbia. During 2021, CGES continued its activities within the said Initiative, in which electricity transmission system operators, power exchanges, as well as energy regulatory agencies (as observers) from Albania, Italy, Montenegro and Serbia have an active participation.

South East Europe Task Force

CGES' representatives participate in the Southeast Europe Task Force, which brings together representatives of transmission system operators from six non-EU Western Balkan countries and six EU countries bordering the Western Balkan countries. Participation in this group is extremely important for CGES because the Task Force was formed at the request of the European Commission to create clear steps for non-EU countries to fully integrate, i.e. become part of the single day-ahead electricity market.

SMM Block Operation Group

CGES manages the ENTSO-E control area of Montenegro. The control area of Montenegro is part of the SMM Control Block, which also includes the control area of Serbia and Macedonia. Coordination of the SMM Block is performed by the transmission system operator of Serbia - EMS, cooperating with CGES and Macedonian transmission system operator MEPSO. The Permanent Working Group in charge of analysing and improving the operational work within the SMM block transmission system has been established.

(Utility Cyber Security Initiative - UCSI for the Balkans (United States Energy Association - USEA)
The most important activity of this working body is the exchange of information on security incidents that occurred in the previous period, responses to security incidents and expected vulnerabilities in the coming period. In addition to strengthening cyber security practices, the group's work focuses on raising awareness of threats and new vectors of attack and responding to incidents.

Balkans Digital Highway project
CGES, together with neighbouring operators (Kosovo, Albania and Macedonia), is part of a World Bank initiative aimed at contributing to the improvement of telecommunications infrastructure and the sharing of infrastructure to lease commercial access to interested operators/users.

Horizon 2020

Trinity project
The TRINITY project aims to contribute to the interconnection of electricity markets in the region of Southeast Europe (SEE) and joining the Multi-Regional Coupling Market. CGES is part of a consortium implementing this scientific research project together with other transmission system operators, power exchanges, promoters of renewable energy sources and scientific research institutions from the European Union and Southeast Europe

CROSSBOW project
As a part of a consortium which is composed, among others, of eight neighbouring TSOs (TRANS, ADMIE, ESO, EMS, NOSBiH, HOPS, CGES and MEPSO) CGES participates in the implementation of the CROSSBOW, which is currently one of the most significant innovation projects of the European Union in the smart grids sector (smart grids). The CROSSBOW project supports research, innovation and technological development in the field of energy, the aim of promoting sustainable electricity networks, which contain greater share of renewable energy sources in the total generation, and allow for the possibility of establishing close to the real-time pan European electricity balancing markets.

Internal Audit

As part of the governance and internal control system, internal audit provides independent and objective assurance and advisory services to contribute to the improvement of CGES' operations. During 2021, CGES' internal audit carried out the following activities:

Internal Audit Plan 2021 was adopted:

By planning the work, the Internal Auditor achieves the realisation of goals, the determination of priorities and the provision of efficient and effective use of resources, as well as:

1. Adequate assessment of future resource needs;
2. A standard in relation to which actual performance can be measured;
3. Acceptance of work performed by internal audit by the management;
4. Continuous record of factors that were taken into account when determining the plan, as well as the decisions made.

In accordance with the above, the Internal Audit Plan 2021 was adopted.
Internal Audit Plan 2021 envisaged the following audits to be conducted:

1. Regulatory allowed revenue (RAR) calculation and reporting;
2. Protection and rescue;
3. Development and Investments;
4. Evaluation and reporting on the quality of electricity transmission service.

In 2021 the following audits were conducted:

1. Development and investments;
2. Warehouse operations (ad-hoc audit in accordance with a Conclusion of the Board of Directors);
3. Granting financial assistance to employees (the audit started in December 2020 but could not be completed due to objective reasons);
4. Regulatory allowed revenue (RAR) calculation and reporting.

In December 2021 the audit of the protection and rescue process started.

The audit of the process of evaluating and reporting on the quality of electricity transmission service was not conducted 2021.The audit objective was to give assurance to the Board of Directors that adequate and effective internal controls has been established in CGES to ensure compliance with the Rules on Minimum Quality Requirements of Electricity Delivery and Supply. Since CGES in 2021 initiated the procedure towards ERA regarding the amendment of the subject Rules, the goal of the audit no longer made sense and its implementation was postponed.

Monitoring of the implementation of internal audit recommendations was provided

In accordance with the Internal Audit Charter, the Internal Auditor monitored the implementation of the accepted recommendations and informed the Board of Directors in January and July 2021 about their status. Also, in accordance with the conclusion of the Board of Directors, in April 2021, the Report on the implementation of accepted internal audit recommendations in the audits conducted in 2016 and 2017 was prepared, with reference to other audits conducted.

In the audits conducted during 2021, 34 recommendations were accepted. Of the total number of recommendations, 14 have been implemented, 1 has been partially implemented, and 19 have a deadline in 2022. In addition, regarding the recommendations from the previous reporting period, the deadline for implementation of which is the end of 2021, out of 37, 21 have been implemented, 2 partially have been implemented, while the implementation for 14 of them is ongoing and is expected to be completed in the following period.

Continuing Professional Development of the Internal Auditor 2022 was adopted

Following the International Standard for Professional Practice of Internal Auditing 1230 - Continuing Professional Development, Article 34 paragraph 1 item 4 of the Law on Governance and Internal Controls in Public Sector (Official Gazette of Montenegro, No. 75/2018) and Internal Audit Charter (No. 1784 of 11 February 2020), the Internal Auditor Continuing Professional Development Plan for 2022 (No. 10079 of 29 October 2021) was adopted. In this way, the Internal Auditor has the opportunity to improve her knowledge, skills and other abilities through continuing professional development.

During 2021, the Internal Auditor attended several trainings organized by the Central Harmonization Directorate of the Ministry of Finance and Social Welfare, one training organized by the Institute of Internal Auditors and Risk management training course (ISO 31000).

Developing Internal Audit Quality Assurance and Improvement Programme and conducting internal assessment

Internal Audit Quality Assurance and Improvement Programme is designed to enable evaluation of the CGES Internal Audit's conformance with the International Standards for the Professional Practice of Internal Auditing, along with an evaluation of whether Internal Auditor applies the Code of Ethics. The Programme also assesses the efficiency and effectiveness of the CGES Internal Audit and identifies opportunities for improvement

One of the reasons for the preparation of this document is the implementation of activities that will contribute to the implementation of strategic goals of internal audit, defined within Internal Audit Strategic Plan 2021 - 2023. Namely, one of the activities that will contribute to the implementation of the strategic goal "improving the work of internal audit" is the implementation of internal assessment in the period December 2021 - January 2022, which is not possible to implement without the previously adopted Quality Assurance and Improvement Programme. It was adopted at the II meeting of the Board of Directors, thus creating preconditions for the implementation of the ongoing monitoring and periodic self-assessment of the quality of internal audit work.

Internal Audit Plan 2022 was adopted

Pursuant to Article 24 of the Law on Governance and Internal Control in Public Sector (Official Gazette of Montenegro, No. 75/2018), the Internal Auditor of CGES prepared and proposed to the Board of Directors the Internal Audit Plan 2022, which was adopted at the II meeting of the Board of Directors held in mid-December 2021.

Independent Auditor's Report

Independent Auditor's Report

To the Shareholders and Board of Directors of Crnogorski elektroprenosni sistem a.d., Podgorica

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Crnogorski elektroprenosni sistem a.d., Podgorica (the "Company") as at 31 December 2021, and the Company's financial performance and cash flows for the year then ended in accordance with the Law on Accounting in Montenegro.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Law on Auditing in Montenegro. Our responsibilities under this law are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Law on auditing in Montenegro that are relevant to our audit of the financial statements in Montenegro. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on auditing in Montenegro.

Our audit approach

Overview

Materiality	• Overall Company materiality: EUR 1,506 thousand, which represents 0.5% of the Company's total assets.
Key audit matters	• Revenue recognition – sale of imbalance power • Long-term provisions

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall materiality	EUR 1,506 thousand
How we determined it	0.5% of total assets
Rationale for the materiality benchmark applied	We chose the benchmark described above as the basis for determining materiality because, in our view, this is the benchmark against which the Company's financial position is commonly measured by users. This is in line with the Company's main objective - to ensure stable transmission of electricity in the country as a result of extensive investments in expansion and modernization of the power grid network

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition - sale of imbalance power	
Refer to note 2.18 (Summary of accounting policies) and note 23 (Revenue from sale). The Company has recognised revenue of EUR 74,631 thousand, including revenue from sale of imbalance power and Fskar methodology of EUR 21,633 thousand, fully compensating incurred costs for purchase of imbalance power on local and international level, for the year ended 31 December 2021. The most significant revenue streams are revenue from auction based allocated capacity and grid network usage revenue, which generally are invoiced on a monthly basis. The income of imbalance power (employment and reservation of secondary and tertiary reserve capacities as well as compensation programs) is generated through a nationwide imbalance settlement procedure on local and international level, resulting in a final imbalance settlement comprised and determined subsequent to performance of these services by the Company. Due to the above, the revenue recognized for sale of imbalance power and revenues based on Fskar methodology in the financial statements involves significant management's estimates and judgement. As a result of these complexities, we have selected revenue recognition as a key audit matter.	Our audit procedures included the following: - obtaining an understanding over the revenue and receivables process for material revenue streams, including sale of imbalanced power and revenues based on Fskar methodology, - assessing the design and testing the operating effectiveness of the key controls in place, - verification of the tariffs applied for all material revenue streams by comparing them to both contractual and regulatory terms, - testing a sample of invoices issued to customers and checking them against supporting evidence (eg. contracts with customers) and cash received, - assessing the recognition of revenue in the correct financial period by examining the reasonableness of management's estimates through comparison of both prior and current year estimated income to actually generated revenue, - evaluating the financial statement' disclosures related to revenue.

Long-term provisions

Long-term provisions are disclosed in Note 13 to the financial statements and a description of the accounting policy in Note 2.12.

The calculation of provisions requires significant management judgement because of the inherent complexity in estimating future costs, factual circumstances, legal or constructive obligations and risk of a financial impact.

Risks and uncertainties from such legal or constructive obligations need to be carefully assessed and analysed by the management.

For those reasons we have selected long-term provisions as a key audit matter.

We critically assessed management's annual review of long term provisions recorded as at 31 December 2021. Testing involved understanding of the legal or constructive obligations that are base for the calculation of long-term provisions.

Of particular note, we performed the following procedures:

- assessing the design and implementation of the procedures related to the process of recognising and evaluating provisions,
- obtaining detailed listing of long-term provisions prepared by the Company's and analysing the reasonableness of the amounts recognised in the financial statements,
- assessed and tested assumptions that have the most impact on calculation of provision.
- verified the mathematical accuracy of the underlying calculations;
- verified the completeness of data by cross referencing with other financial and non-financial data,
- obtaining third party evidence where appropriate,
- assessing of disclosure in the financial statements per each category of long-term provision,
- tested the sensitivity analysis prepared by management for the change in key assumptions. We have an internally developed range of acceptable assumptions. While our range is, itself, subjective for the purpose of valuing of long-term provisions, assessment prepared by management fell at the lower end of the range. We discussed with the management the rationale for the assumptions that they used and we agreed that the explanation was reasonable. We tested mathematical accuracy of calculations and concluded that the results were not materially different and were within a tolerable range.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the Annual Management Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Annual Management Report we also performed procedures required by the Law on Accounting in Montenegro. Those procedures include considering whether the Annual Management Report includes the disclosures required by the Article 11 of the Law on Accounting.

Based on the work undertaken in the course of our audit, in our opinion:

- the Management Report has been prepared in accordance with the requirements of the Law on Accounting in Montenegro; and
- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

In addition, considering the knowledge and understanding of the Company and its environment obtained during the audit, we are required to report if we have identified material misstatements in the Annual Management Report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Law on Accounting in Montenegro, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law on Auditing in Montenegro will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law on Auditing in Montenegro, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The licensed auditor on the audit resulting in this independent auditor's report is Biljana Bogovac.

Refer to the original signed Montenegrin version

Biljana Bogovac
Licensed auditor

Refer to the original signed Montenegrin version

PricewaterhouseCoopers d.o.o., Podgorica

Podgorica, 29 March 2022

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