CRNOGORSKI ELEKTROPRENOSNI SISTEM

OPERATING STATEMENT
OF CRNOGORSKI ELEKTROPRENOSNI SISTEM AD FOR THE YEAR 2020

Podgorica, April 2021

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OPENING STATEMENT

Vesna Bracanović,

Chairwoman of the Board of Directors

Dear shareholders,

In the light of the coronavirus pandemic, the crisis, significant changes in the way of doing business and functioning, I am completely satisfied with what was achieved during 2020. Namely, we achieved an enviable business result, which is almost four times better than in 2019. This result becomes even more important precisely due to the fact that it was realised during the pandemic, which affected the great crisis not only in the domestic, European, but also in the world economy.

In this regard, the net income of over €12.4 million clearly indicates the fact that CGES came out with an enviable balance sheet, which we are extremely proud of.

We are not only proud of the financial part, but also of all other business segments, where we have achieved remarkable results with a very serious approach, but also by investing knowledge, as well as multiple and additional efforts.
We brought to a close what we started, which means that we implemented a significant number of investments that, when it comes to this sector, have only one goal - energy stability of all users connected to the network, which improves the quality of our services. We also managed to maintain business processes and to improve the quality of service, which all together makes our satisfaction even greater.

It should not be emphasised that the devotion and expertise of our employees were decisive factors in achieving this business result and all the credit belongs to them. I would like to take this opportunity to thank the members of the Board of Directors, the management team and all employees for their cooperation and contribution in achieving business goals in 2020.

OPENING STATEMENT

Dragan Kujović, Executive Director

Dear shareholders, institutional and business partners of Crnogorski elektroprenosni sistem,

I take this opportunity to emphasise that 2020 is one of the most successful years since the establishment of CGES as an independent legal person, regardless of the complexity of our business environment and the specific conditions in which we operated.
We will remind you that CES continuously records good business results, and that last year's business success is the crown of multi-year, strategically well-planned, work of CGES.
A large number of investments implemented in the previous period, the constant development of the electric power system, as well as good system control are the key reasons for achieving a good business result.
In addition to the financial and investment part, we are also proud of all other business segments, where we have achieved notable results with a serious approach, by investing knowledge, as well as multiple additional efforts.
The vision of CGES is to grow and become a transmission system operator consistent with the European best practices, in order to ensure a high level of security in electricity transmission to the consumers in Montenegro. Thus, we are working on the development and strengthening of the Montenegrin transmission internal and cross-border network, as well as on the reconstruction and improvement of the operational readiness of our facilities, in which we have also succeeded.
One of the most important investments, which, when put into operation, had a strong impact on the operations of CGES, is the connection of the electric power systems of Montenegro and Italy through a submarine cable. CGES has been recording more than excellent results in the part of the operation of the submarine cable and the income it generates on this basis. The specific result indicates that we did more than a good job - at the auctions for 2020, we had a net income of almost €12 million.
During the past year, in addition to activities on the construction of the overhead line Čevo - Pljevlja, which is part of the project of associated infrastructures of the submarine interconnection Montenegro - Italy, activities on the Trans-Balkan Corridor, which will connect the Balkan countries, from Romania through Serbia, Bosnia and Herzegovina (BiH) and Montenegro, with Italy, and for which the state and CGES received a European Union grant in the amount of €25 million, were also intensified. Within this project, specific activities are underway on the reconstruction of 15 transmission substations in the part of replacement of high voltage equipment, reconstruction of relay protection and control. The main benefits of this project are safer and more reliable operation of plants, reduction of the number and duration of unplanned power outages and extension of the service life of the main elements of the transmission network, i.e. reduction of maintenance costs. In this regard, the replacement of equipment in the substations Mojkovac, Bar, Ulcinj and Herceg Novi, carried out within this project, was successfully completed.
In 2020, we implemented very significant investments in existing electric power facilities, of which, of course, we should single out the completed replacement of 110/35 kV / kV power transformers in SS Nikšić and SS Kotor, while the works on the replacement of transformers in SS Lastva and SS Podgorica 2 are progress. The total value of these investments is about €5 million. We brought to a close the investment in the amount of over €2 million. Namely, CGES has installed a high-voltage underground cable that will connect the substations Podgorica 1 in Zagorič and Podgorica 4 in Tološi, which will create conditions for even more reliable and safer power supply of the part of the city across the river Morača, including the parts where the implementation of numerous infrastructure projects is expected.
The construction of this 110 kV line in the transmission network of Montenegro will be much more important than the usual high-voltage line that connects the two substations in terms of providing bidirectional power supply to the substation Podgorica 4, supplies a large part of the consumption of the Capital.
It should certainly be emphasised that in 2020, when the world faced the coronavirus pandemic that had a very negative impact on capital investments, a similar investment volume was maintained as in the previous three-year period, which means that the value of investments for the reporting period was €17.5 million.
The Company also invested in business infrastructure and the establishment of business processes with the help of the new ERP system, whose primary functionality is the control and optimisation of company resources at all times. In this regard, we started training over a hundred users who will contribute to the complete digitalisation of our Company's business.
Despite the outbreak of the coronavirus pandemic, we still have great potential for developing socially responsible business. In such circumstances, we manage to respond even better to the great social needs, challenges and responsibilities in this area, especially in today's time, which implies solidarity and empathy in every respect.

2. ABOUT US

CGES was registered as an independent joint-stock company on 27 March 2009. The core activity of the Company is electricity transmission, for which it obtained a license from the Energy Regulatory Agency. The quality of performing the activity is 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 electricity transmission, the Company also has a license to provide telecommunication services, thanks to its network of optical telecommunications fibres, about 850 kilometres long, throughout the country.

Besides the core activity, CGES performs the activity of laying electrical installations and equipment, designing civil and other structures, coarse civil works, other civil and specialised works as well as telecommunications.

CGES MISSION

Secure and reliable operation of the electric power system in Montenegro, quality transmission and supply of electricity and system control in accordance with the international operational standards.

Decarbonisation

Commitment to the development of environmental awareness and environmental protection in the construction of new facilities and maintenance of existing ones. Improving energy efficiency.

Social responsibility

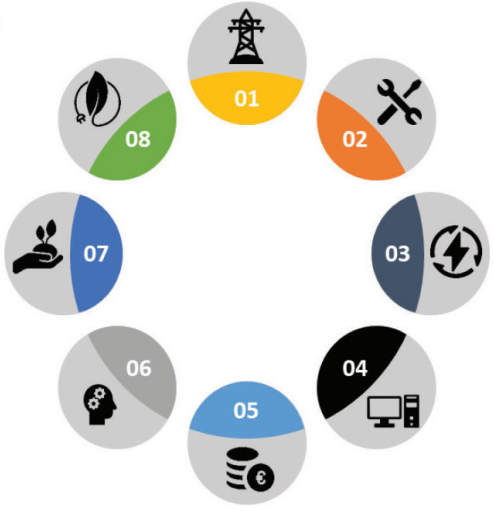
Corporate social responsibility through the creation of values for people, the environment and communities and the encouragement of the development of culture, arts, sports, education and the preservation of the environment.

Human Intellectual capital

Continuous education and professional development of employees.

Finance management

Continuous monitoring and minimisation of business risks. Maintaining a strong credit rating. Financing the largest development projects on favorable terms.



Network development and capital investments

Completion of the 400 kV network construction project. Ensuring bidirectional power supply to all substations. Development and modernisation of the telecommunication system. Reduction of transmission system losses.

Network maintenance

Implementation of comprehensive network control. Continuous and timely servicing of the system.

System control

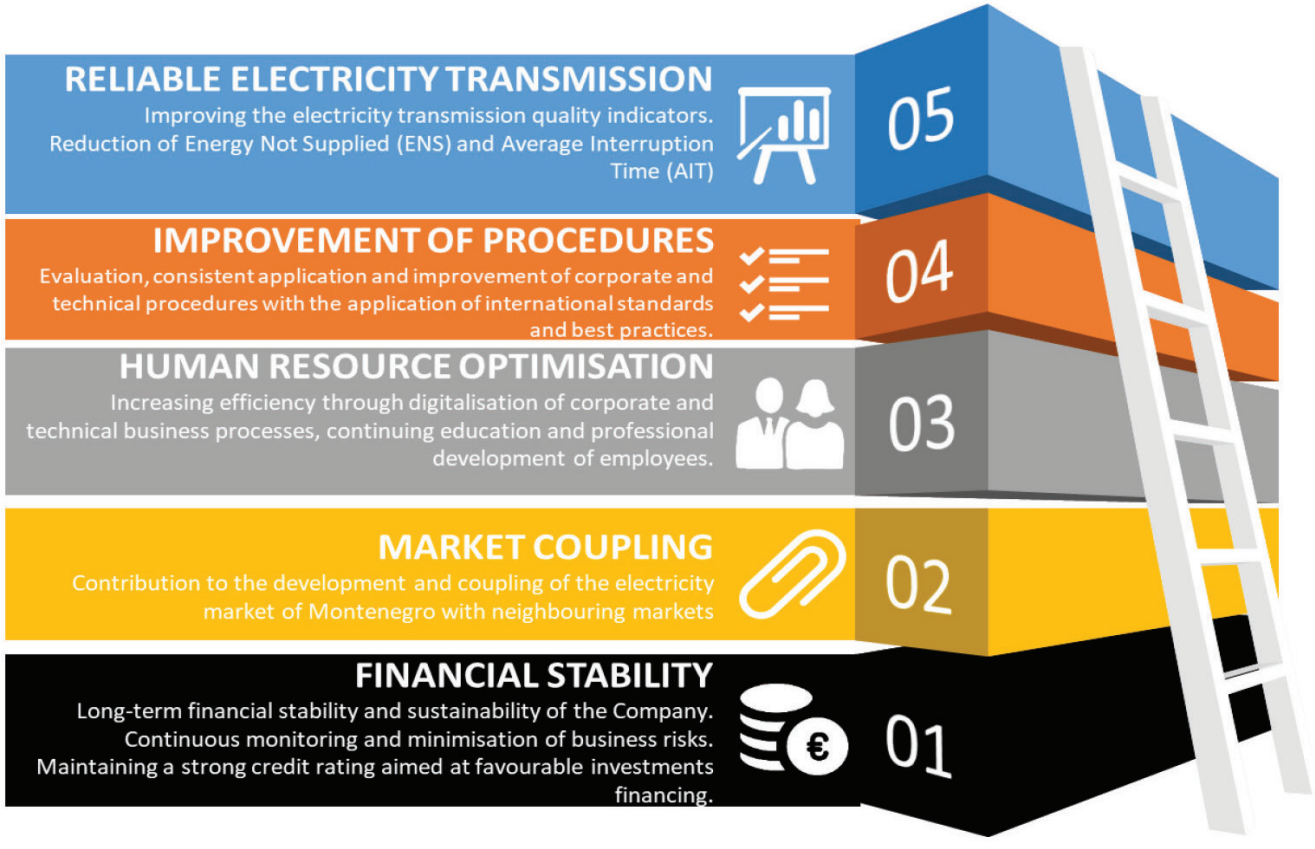
Full implementation and high reliability in the operation of the new SCADA system. Application of ENTSO-E standards in the part of planning procedures, security analyses and operational control of the transmission system.

Business digitalisation

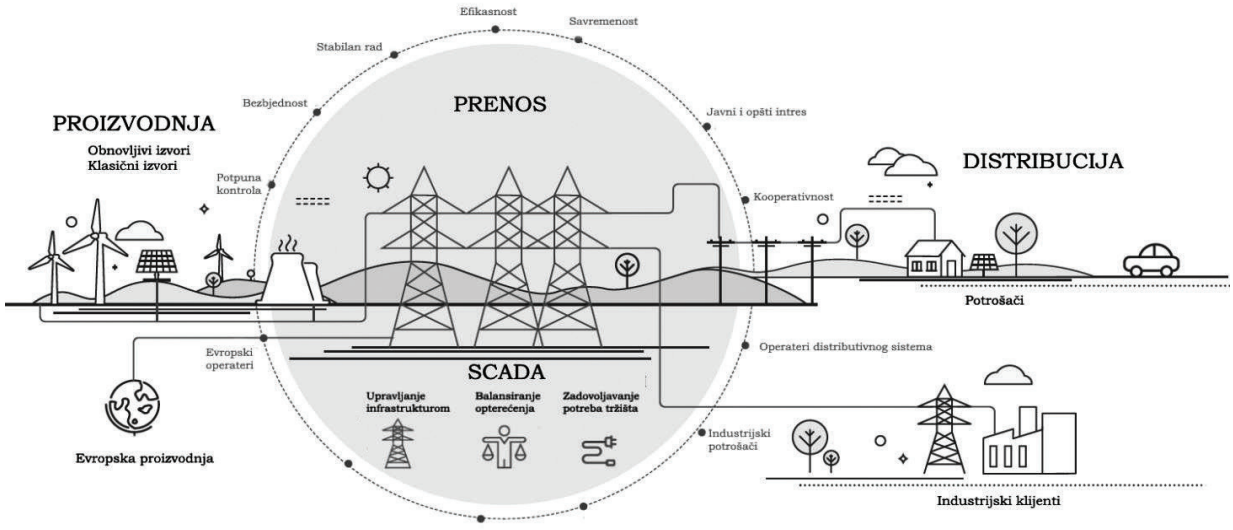
Implementation of ERP and DMS systems and international standards in the field of information security.

CGES VISION

By valorising our potentials, with a focus on the development of the transmission system, our vision is to be a company recognised for the best quality services, ready to face challenges and to be an initiator of changes aimed at sustainable development and innovations. Aware of the unique role in the process of electric power system transformation, we are firmly committed to creating the preconditions for the promotion and implementation of digitisation, decentralisation and decarbonisation strategies.



3. KEY DATA



1,411 km

The length of overhead lines and cables

3,866 MVA

The installed capacity in 25 SS at 400/X, 220/x and 110/x

31,37%

More transmitted energy compared to 2019

47,22%

Lower volume of energy not supplied due to unplanned outages compared to 2019

€ 15,2 milion

The amount of investments

302

The number of employees

€ 51,1 milion

Revenues

€ 23,2 milion

EBITDA

€ 12,5 milion

Net income

4. HIGHLIGHTS

January

CGES donated computer equipment worth €35,000 to the Clinical Centre of Montenegro

At a press conference held at the Clinical Centre of Montenegro on the occasion of a donation granted by CGES to this health care institution, a message was sent that our company is widely recognised in the public as a proven friend of the largest health institution in Montenegro, which all these years, as a socially responsible entity, was ready to meet numerous requirements.

CGES' participation in the Trinity project

CGES is part of a consortium implementing the scientific research project Trinity together with end users (transmission system operators, electricity exchanges, regional coordination centre, promoters of renewable energy sources) and scientific research institutions from the EU and South East Europe.
The enhancement of regional border transmission system capacity by means of intelligent market technology is being implemented under the auspices of the Innovation and Networks Executive Agency (INEA) of the European Commission.

February

CGES and the Paralympic Committee of Montenegro signed Sponsorship Agreement worth €20,000

CGES signed with the Paralympic Committee of Montenegro (POKCG) a one-year Sponsorship Agreement worth €20,000. CGES's Executive Director **Dragan Kujović** and POKCG's Chairman **Igor Tomić** signed the Sponsorship Agreement.
CGES, for the third year in a row, supports POKCG through the Sponsorship Agreement and, as a company that has built its image through numerous projects, donations and sponsorships, succeeded to provide funds to support POKCG during 2020.

March

COVID-19

In CGES, a team for preventive action and crisis headquarters were formed at two locations (CGES head office and NDC building) whose tasks are preventive action in order to impede the import and spread of COVID-19 virus, i.e. implementation of measures, recommendations and decision adopted by the Government of Montenegro. Measures taken or prepared by ENTSO-E transmission system operators and everything that was applicable were analysed.

April

Ensuring RDC functionality

Special instructions were prepared for performing critical work processes. In order to minimise contacts between employees, real-time transmission system control was organised in a daily shift from the Reserve Dispatch Centre. This represents the beginning of the use of this important resource of our Company, which, although intended for other purposes, at the time of the pandemic fully justified a significant investment in a redundant location.

New transformer installed in SS Nikšić

In order to ensure a safe electricity supply to the Steelworks, as a very important business entity, a new 110/35 kV power transformer, with power of 63 MVA, was installed in SS 110/35kV Nikšić.

June

CGES participated in the Startup Academy

The Chairwoman of the Board of Directors of CGES, **Vesna Bracanović**, participated in the jury of the Startup Academy, which was organised by the Faculty of Electrical Engineering for students of the Faculty of Electrical Engineering and the Faculty of Natural Sciences and Mathematics.

XI General Shareholders' Meeting held

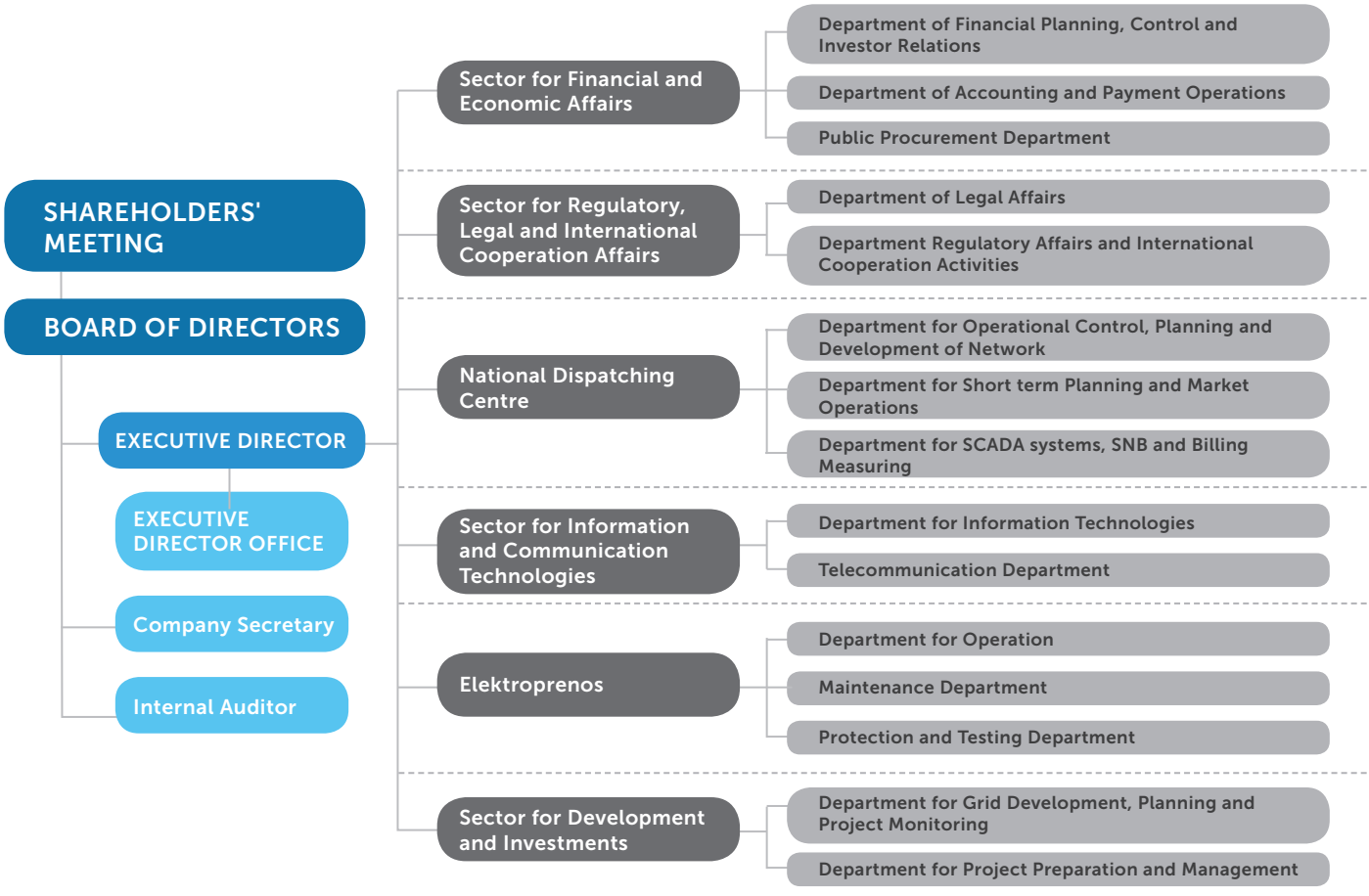
At its XI regular session, the General Shareholders' Meeting of CGES adopted the Operating Statement, the Decision on retained net income, financial statements with the auditor's report. In addition, at this Meeting. the shareholders dismissed and then elected new members of the Board of Directors of CGES.

July

Update of the rules for the allocation of cross-border capacities on the Italy-Montenegro border

Following a public consultation, Terna and CGES updated the Forward Allocation Rules (FAR), which cover the regulation of long-term transmission rights (annual and monthly time frame) and the Daily Allocation Rules (DAR), which cover the regulation of daily transmission rights. Amendments to the Forward Allocation Rules were initiated by the need to harmonise the deadline for curtailing long-term transmission rights (Firmness deadline) on the border of the zone Italy CSUD - Montenegro with deadlines valid on other borders of the Montenegrin transmission system, while the Daily Allocation Rules were improved in legislative-technical terms.

5. ORGANISATIONAL STRUCTURE



6. CORPORATE MANAGEMENT

Shareholders' Meeting

The Shareholders' Meeting is the ultimate authority of the Company. The competences of the Meeting are provided for by the Companies Act and By-Laws of the Company. The shareholders, through the Meeting, pass and approve the most important acts, property, election and status related decisions. XI Ordinary Shareholders' Meeting of CGES was held during 2020. In addition to decisions adopting the 2019 Operating Statement, 2019 Financial Statements with Auditor's Report and Decision on selection of an auditor for 2020, members of the Board of Directors were elected at the Meeting.

Board of Directors

The Board of Directors is authorised to manage the Company, to give guidelines to the Executive Director in terms of managing the Company's operations and to monitor the Company's operations. The authorities of the Board are set by the Companies Act and the By-Laws of the Company.
CGES' Board of Directors consists of seven members who were elected at XI Ordinary Shareholders' Meeting held on 30 June 2020.

New transformer installed in SS Kotor

For the purpose of safe and reliable power supply, especially during the tourist season, a new 110/35kV power transformer, with the power of 20 MVA, was installed in SS 110/35 kV Kotor.

Donation for renovating the amphitheatre at the Faculty of Electrical Engineering

A Donation Agreement was signed with CGES, by which €20,000.00 was approved to the Faculty of Electrical Engineering the amount of for the needs of renovating the amphitheatre 016. The amphitheatre at the Faculty of Electrical Engineering got a new, modern look, thanks to CGES's donation to this educational institution.

August

CGES and the Trade Union Organisation paid €10,000 to NKT

On the occasion of the Company Day, and aware of the seriousness of the situation caused by the coronavirus, CGES and the Trade Union of our Company decided to donate funds in the amount of €10,000, intended for traditional activities of employees, to the National Coordination Body (NKT) for Infectious Diseases.

A total of 110 years of electric power development marked in SS Lastva

On the occasion of marking the 110th anniversary of the development of the electric power industry in Montenegro, CGES organised a visit to the substation Lastva. The ceremony was attended by the Prime Minister of Montenegro Duško Marković, the Minister of Economy Dragica Sekulić, as well as the President of the Municipality of Kotor Željko Aprcović.

The substation Lastva is the first 400 kV compact GIS plant built in the Balkans. This substation is one of the most important facilities of the transmission network of Montenegro, not only because of the interconnection with the Italian electric power system, but also because of its great importance for the power supply of the Montenegrin coast. With the completion of construction and commissioning, the substation Lastva became the primary source of power supply of Herceg Novi, Tivat and Budva, and significant support for the power supply of Bar and Ulcinj. In addition, the construction of the substation Lastva solved the long-standing problem of lack of electric power capacities on the Montenegrin coast, which was also an insurmountable barrier to the construction of large tourist capacities.

September

User training for the ERP (Enterprise Resource Planning) system started

Although a large number of business processes and functions are already automated, CGES, as a modern company of the 21st century, is rapidly continuing the process of business digitalisation by implementing the ERP system. In this way, business in the segments of financial management, accounting, controlling, project management, human resources and plant maintenance process will be fully digitalised.
Accordingly, CGES started to train more than 100 future users of the system, in compliance with all epidemiological measures.

October

Completed works on the reconstruction of the 110 kV overhead line Herceg Novi - Trebinje

For the purpose of safe and reliable power supply of the municipalities of Herceg Novi and Tivat, especially during the tourist season, CGES reconstructed the 110 kV overhead line Herceg Novi - Trebinje.

Substation Podgorica 4 obtained bidirectional power supply

CGES completed works on the construction of a new 110 kV connection between substations Podgorica 1 and Podgorica 4, which gave substation Podgorica 4 a bidirectional power supply, while a large part of the consumption of the Capital additional security in power supply.

Crnogorski elektroprenosni sistem reaches final stage of the CROSSBOW project

The CROSSBOW project, implemented by CGES under the multi-annual Horizon 2020 programme, aims to establish cross-border control of intermittent renewable electricity sources and storage units to ensure an international balanced electricity wholesale market. For CGES' project activities, which, through cooperation with prominent scientific research institutions from Europe and transmission system operators from the environment provide us with the opportunity to use knowledge and experience to improve the Company's business processes, financial resources in the amount of up to €374,672.00 are available. CROSSBOW is in the product testing phase, and preliminary results will soon be consolidated through technical reports and then published on the European Commission portal.

December

Disaster recovery site

Work began on the installation of the Disaster Recovery Site (DRS - Micro Data Centre), which will ensure business continuity in case of incidents, natural and other disasters. Server, storage and information and communication equipment necessary for unimpeded access to all the most important information systems of the Company in case of need will be installed at the DR location.

Executive Director

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 addition to the aforesaid, the remaining authorisations and responsibilities of the Executive Director are provided for by the Companies Act and the By-Laws of the Company.

The Executive Director is responsible for his work to the Board of Directors and is obliged to carry out decisions of the Board of Directors and implement its decisions in connection with the business activities of the Company.

Company Secretary

The authorities and responsibilities of the Company Secretary are provided for by the Companies Act, and the By-Laws of the Company.

According to the provisions of the By-Laws of the Company, the Company Secretary is responsible for her work to the Board of Directors and is obliged to implement its decisions.

Management Team

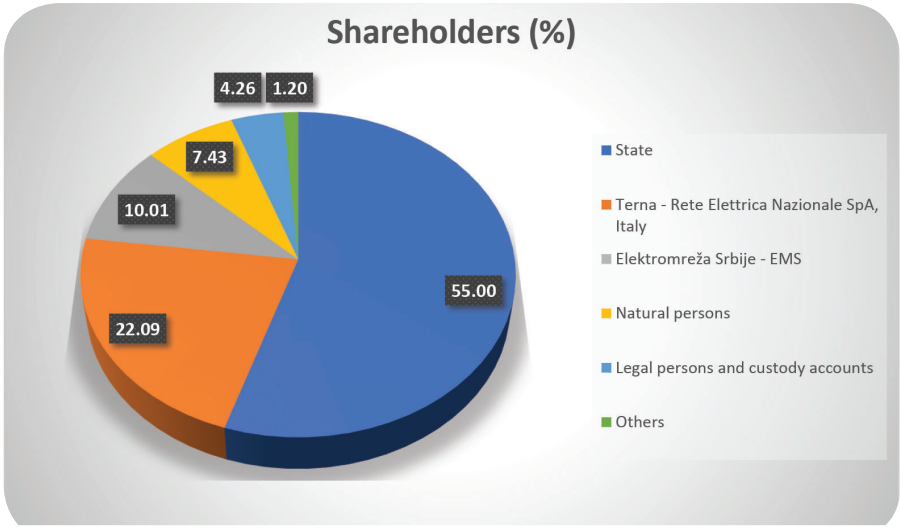
The Board of Directors determines the management structure and appoints management member at the proposal of the Executive Director. During 2020, members of the management were: Dr Branko Stojković, Assistant Executive Director for Development, MSc Ljiljana Vučinić, Assistant Executive Director for Investments, Milica Deretić, Director of National Dispatching Centre, Jagoš Pupović, Director of Elektroprenos, Jovan Gošović, Director of Sector for Financial and Economic Affairs, Biserka Dragićević, Director of Sector for Regulatory, Legal, Personnel and International Cooperation Affairs and Mijat Mirković, Director of Sector for Development and Investments.

Transparency of Business Operations

The practice of the Company includes informing shareholders and the public in accordance with the statutory requirements. CGES ensures transparency of business operations by timely publishing accurate and full information on all significant matters and highlights relating to the Company, including financial operations in a simple and available manner, through the Company's website and means of public information.

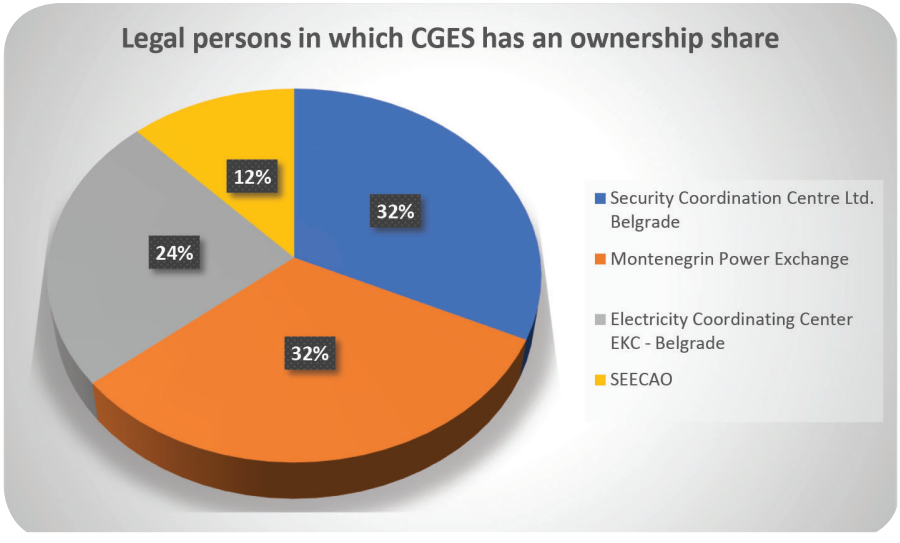
Ownership Structure

As of 31 December 2020, the share capital structure is 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 2020, is 7,171.
The ownership structure of CGES as of 31 December 2020 was the following:
The State of Montenegro holds 55.00% of the Company's shares, Terna Rete Nazionale S.p.A. 22.0889%, JSC Elektromreža Srbije - Beograd 10.0141 %, institutional investors 1.2020% and legal persons and custody accounts 4.2609% of shares, while natural persons hold 7.4341% of shares.



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:



7. HUMAN RESOURCES

In facing the challenges of implementation of a very intensive investment cycle, efforts to reach the position of an optimised, but completely independent transmission system operator, the Company strives to pay particular attention to the improvement of human resources policy since the knowledge, expertise and creativity of employees guarantee the success of the Company.

This was especially pronounced during the year marked by the pandemic, when CGES, thanks to team structures, provided greater adaptability to current circumstances, as well as the introduction of radically new ways of working and doing business, all in order to mitigate risk and plan effectively.

During the reporting year, the improvement of human resources policy also continued by adopting approaches based on periodic reports on human resources of each organisational unit, by adopting internal procedures and instructions that undoubtedly play a key role in efficient management of human and personnel activities.

As of 31 December 2020, the total number of employees in CGES was 302. That number includes 296 employees with full-term employment contracts, and six employees with fixed-term employment contract.

Seven years in a row, we have been supporting the Government Programme for Vocational Training of persons who acquired a higher level of education, so fifteen persons carried out the vocational training within our Company during 2020. In addition, training of users for the ERP system was started, within which training was provided for employees in the IT Department who are engaged in the implementation of the ERP/DMS project (project management, testing and security assessment of IT systems). In addition to the above, during 2020, CGES' employees were trained in the field of international financial reporting, the possibility of reducing the tax burden on salaries, EU network codes and the 4th energy package, certification that confirms the ability to implement and solve problems in working with CISCO network technologies as well as project management - construction contracts based on FIDIC conditions.

Taking into account, the significance of the energy sector for a total employment rate in the country, on the one hand, and the necessity of optimisation of all costs of the core activity, including personnel costs, on the other, the Company has been improving from year to year one of the main efficiency parameters – the value of assets per employee in the Company. 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.

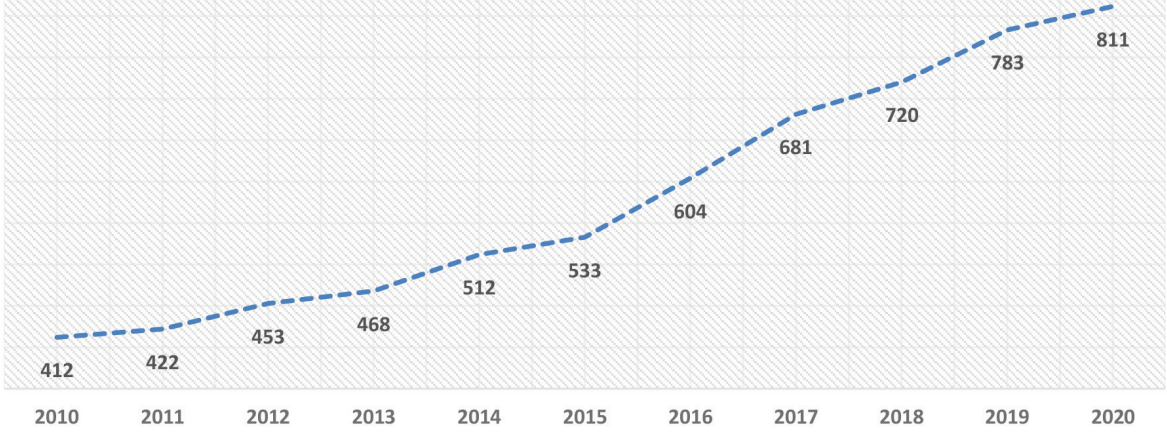


Figure 1 - Value of assets per employee [€1,000] in the period from 2010 to 2020

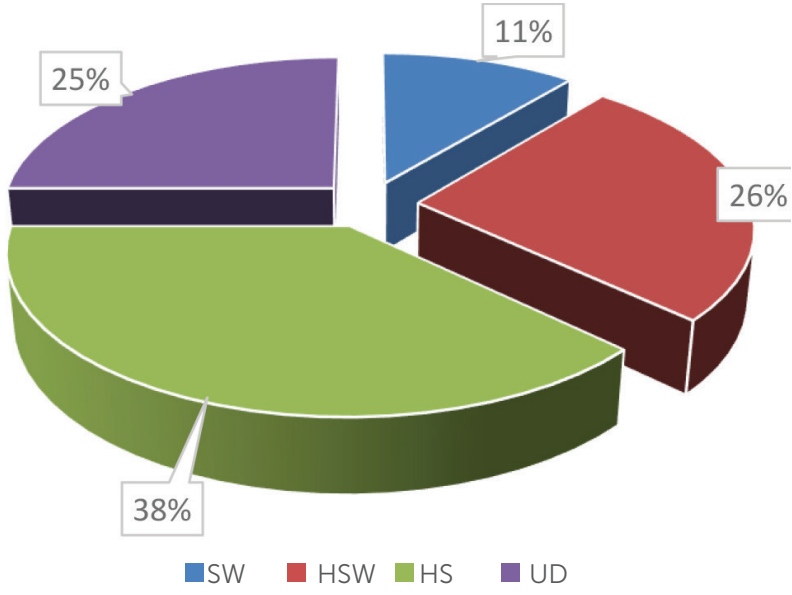


Figure 2 - Qualification structure of employees

8. REGULATORY FRAMEWORK

During 2020, amendments were made to the Energy Law that provided conditions for more efficient operation of the electricity market, as well as complete independence of the electricity transmission system operator. In addition, a part of the EU Regulation on establishing guidelines for capacity allocation and congestion management, necessary for electricity market coupling, was transposed.

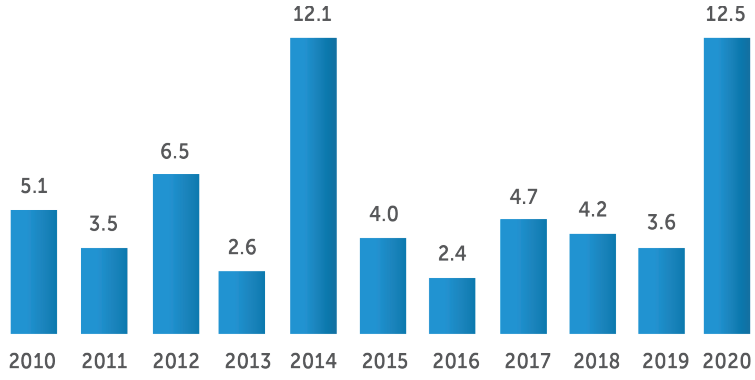
In late 2020, CGES started harmonising the existing Transmission Grid Code, as well as the Transmission System Connection Charging Methodology, with new legal solutions and other bylaws.

The year 2020 was marked by additional legislative activities in order to prepare new rules for capacity allocation on the Italy-Montenegro border, rules for auctions for transmission capacity allocation on the border of control areas EMS and CGES, as well as rules for allocation of transmission rights and capacity allocation on the borders of the budding zone served by the SEE CAO. These rules have been approved by the Energy and Water Regulatory Agency.

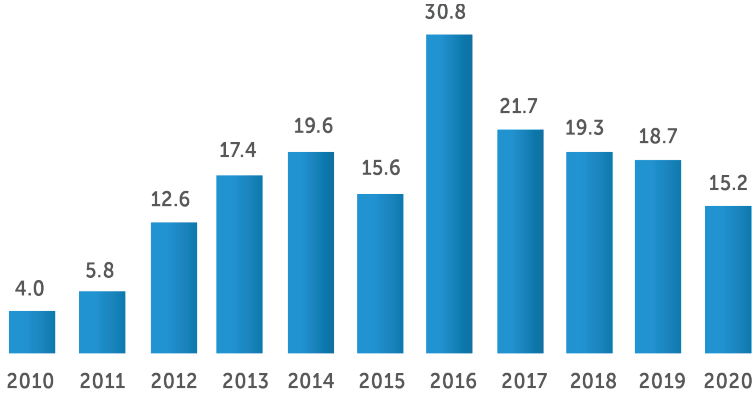
In accordance with the legal competencies, in 2020, the Energy and Water Regulatory Agency also supervised the operations of CGES and conducted regular controls of investment plan implementation, as well as the realisation of energy and economic values based on which the regulatory allowed revenue was set.

9. CORPORATE DATA

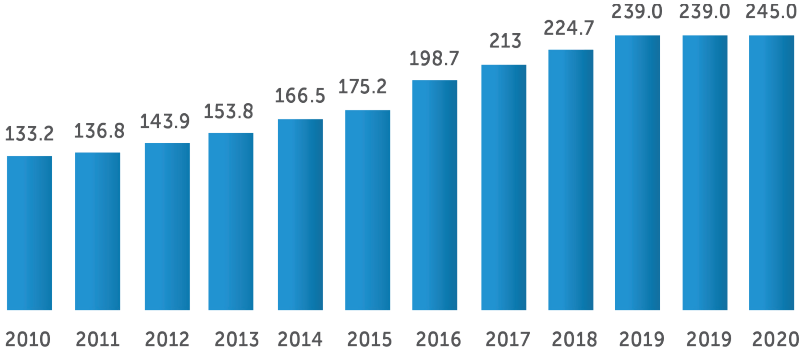
CGES continued its positive business in the eleventh year of operation, achieving one of the most successful results since operating as a separate legal person, showing a net income of €12.5 million despite the very complex business environment due to the coronavirus epidemic.



During 2020, €15.2 mln was spent for investments implementation.



Also in 2020, CGES continued developing the system following the permanent consumer demands for quality of electricity, as reflected in the achieved value of CGES assets of €245.0 mln.



10. FINANCIAL STATEMENTS

Profit & loss statement

The 2020 financial statements show a net income of €12.5 mln.

Revenues amount to €51.1 mln and they mainly refer to transmission network use (€22.1 mln), revenues from cross-border capacity allocation (€11.9 mln), revenues from fees for transmission losses (€8.6 mln) and revenues from balancing and system services (€6.0 mln).

Operating expenses were realised in the amount of €27.9 mln and mainly refer to transmission losses (€9.2 mln), costs of balancing and system services (€7.2 mln), personnel costs (€6.0 mln) and other costs including third party costs (€5.5 mln).

EBITDA (earnings before interest, taxes and depreciation) amount to €23.2 mln with a margin of 27%.

PROFIT & LOSS			
€ mil	*12M 2020.*	*12M 2019.*	*2020 VS 2019*
Transmission network use revenues	22,1	21,4	0,7
Transmission losses	8,6	6,3	2,3
Cross-border capacity allocation revenues	11,9	3,7	8,2
Balancing and system services revenues	6,0	6,6	(0,6)
Other revenues	2,4	2,6	(0,2)
Total revenues	**51,1**	**40,6**	**10,5**
Personnel	6,0	6,3	(0,2)
Material	0.2	0.3	(0.1)
Third party services	2,1.	2,1.	0,0
Balancing and system services cost	7,2	7,8	(0.6)
Other	3,2	3,2	0,0
Transmission losses	9,2	8,1	1,1
Total costs	**27,9**	**27,7**	**0,2**
EBITDA	**23,2**	**12,9**	**10,2**
Margin	45%	32%	14%
D&A	9,1	8,2	0,9
EBIT	**14,0**	**4,7**	**9,4**
Margin	27%	12%	16%
Net financial expenses	**0,3**	**0,6**	**(0,3)**
Financial revenues	05	0,3	0,2
Financial expenses EBRD Lastva-Pljevlja	0,2	0,1	0,1,
Financial expenses KfW Lastva-Pljevlja	0,2	0,3	(0,1)
Financial expenses KfW - Luštica	0,1	0,0	0,0
Financial expenses EU Grant	-	-	-
Financial expenses revolving lending	-	-	-
Financial expenses other debt	0,4	0,4	(0,0)
EBT	**13,8**	**4,1**	**9,1**
Taxes	1,3	0,4	0,9
Neto profit	**12,5**	**3,6**	**8,8**

REVENUES FROM TRANSMISSION NETWORK USE:

Revenues from distribution: amount to €11.9 mln and are higher than 2019 (+€0.3 mln).

Revenues from producers: amount to €10.2 mln and are higher than realised in 2019 (+€0.4 mln) due to higher installed capacity and positive tariff effect.

Fee for transmission network losses: higher than realised in 2019 (+€2.3 mln) as result of higher ITC revenues.

Congestion revenues: significantly higher than realised in 2019 (+€8.2 mln) mainly due to the entry of the submarine cable with Italy into commercial use in early 2020, which affected the realisation of revenues on the border with Italy in 2020 in the amount of €4.5 mln. In addition to direct revenue on the border with Italy, the commissioning of the submarine cable consequently affected the great interest in the allocation of cross-border capacity on other borders of Montenegro, which additionally contributed to the increase in revenue on this basis compared to the previous year, specifically on the border with: Serbia (+€2.1 mln), BiH (+€1.0 mln) and Albania (+€0.6 mln).

Revenues from balancing and system services: lower than realised in the previous year (-€0.6 mln) as a result of lower revenues for delivered energy based on the tertiary control service – Montenegrin Electricity Market Operator (COTEE).

Operating expenses: slightly higher than the previous year, +€0.2 mln (+0.8%), mainly due to differences in the following items:

- Transmission network losses (+€1.1 mln);
- Ancillary, system and balancing services (-€0.6 mln);
- Personnel cost (-€0.2 mln);
- Cost of material (-€0.1 mln).

Depreciation: higher than the previous year (+€0.9 mln) as a consequence of putting fixed assets into operation due to the implementation of investments.

Net financial costs: Realisation of net financial cost is lower compared to the previous year (-€0.3 mln) mainly due to higher financial revenues.

Income tax: was calculated as 9% of taxable income. The realisation is higher than the previous year (+€0.9 mln) as a result of a significantly higher tax base.

Net income: The realised net income of the Company amounted to €12.5 million and is significantly higher than the previous year (+€ 8.8 mln) as a result of a significant increase in revenue, while at the same time, operating costs remained at approximately the same level compared to the previous year.

Balance sheet

BALANCE SHEET			
€ mil	*12M 2020.*	*12M 2019.*	2020 VS 2019
Assets	245,0	239,0	6,0
Working capital	(20,9)	(16,0)	(4,9)
Funds	3,8	3,4	0,4
Net invested capital	**220,2**	**219,5**	**0,8**
Shareholders equity	188,1	174,9	13,2
Paid in capital	155,1	155,1	-
Reserve	0,2	0,1	0,2
Carried forward results	32,7	20,3	12,5
Net profit from previous period	20,3	16,6	12,5
Current net profit	12,5	3,6	8,8
Dividends	-	-	-
Purchased own shares	-	(0,6)	0,6
Net debt	32,2	44,6	(12,4)
Cash	22,9	17,8	5,1
Long-term debt	55,1	62,4	(7,3)
EBRD Lastva-Pljevlja	37,7	40,8	(3,1)
KfW Lastva-Pljevlja	9,9	12,7	(2,8)
KFW (Luštica)	0,2	-	-
Other debt	7,3	8,9	(1,6)
Short-term debt	-	-	-
Dividends	-	-	-
Total liabilities	**220,2**	**219,5**	**0,8**

Net Financial Debt

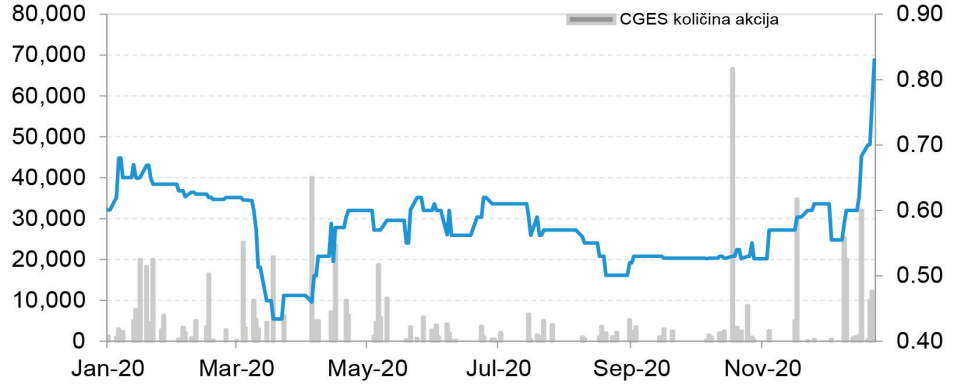
Compared to the end of 2019, the realisation is lower by €12.4 mln due to the repayment of EBRD and KfW loans (-€7.6 mln), as well as repayments based on other loans (-€1.7 mln) partially compensated by investments in additional and associated infrastructures and the Luštica project (+€1.7 mln), while the level of total cash is higher (+€5.1 mln) compared to 2019 due to cash generation from operational activities.

Cash flow

CASH FLOW		
€ mil	*12M 2020*	12M 2019
Initial balance	**17,8**	**25,4**
EBIT	14,0	4,7
Taxes	(1,3)	(0,4)
Depreciation	9,1	8,2
Delta - working capital	4,9	8,6
Delta - Funds	0,4	0,0
Delta - Capex	(15,1)	(22.5)
Total operational activities	**12,0**	**(1,4)**
Financial expenses	(0,3)	(0,6)
EBRD loan Lastva-Pljevlja	(3,1)	5,7
KfW loan Lastva-Pljevlja	(2,8)	(1,3)
Revolving facility	0,2	-
Revolving lending	-	-
Delta other debt	(1,6)	(2,6)
Total financial activities	**(7,6)**	**1,1**
Capital injection	0,2	0,2
Dividends	-	(7,0)
Purchased own shares	(0,0)	0,6
Injected capital	**0,2**	**(7,4)**
Total	**4,6**	**(7,6)**
Final balance	**22,4**	**17,8**

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, recording an increase in value from €0.60 per share at the beginning of the year to €0.83 per share as of 31 December 2020.



11. TRANSMISSION SYSTEM CONTROL

CGES, as the founder and member of ENTSO-E (European Network of Transmission System Operators for Electricity), 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) or 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 manipulations.

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.

2020 Control Novelties

In 2020, CGES, like other operators, faced work in the conditions of the COVID-19 epidemic, which required a new organisation of the work of operational staff. **In order to reduce the risk of import and spread of the virus among the staff engaged in critical work processes, activities on the supervision and control of the transmission system in the daily shift were performed from the hall of the Reserve Dispatching Centre (RDC). Although this is the first time that CGES has used RDC, the Company has successfully responded to the task and ensured continuity of control in the pandemic.**
In December 2020, the Kosovo Transmission System Operator (KOSTT) started operating as a separate control area, giving CGES another electricity border. Now CGES' system has five borders towards: NOSBiH, EMS, KOSTT, OST and Terna. Accordingly, the systems SCADA, ESS, ESP and E-Repo were adjusted, which brought these systems and the business processes to which they are related in line with the new situation in the system.

Outage planning coordination and security analyses coordination are of great importance for transmission system control.

In addition to coordinated processes, CGES analyses power flows, voltage conditions and system operation security in specific regimes on a daily basis to identify possible critical situations and design preventive and corrective measures to overcome these situations. **In 2020, a new, significantly improved version of the TNA software, with a large number of new functionalities that enable better system security analysis and other analyses that are performed on a daily basis, was purchased. The most significant progress is the ability to operate with the CGMES format, which makes CGES ready to await the transition to this standard at the ENTSO-E level.**

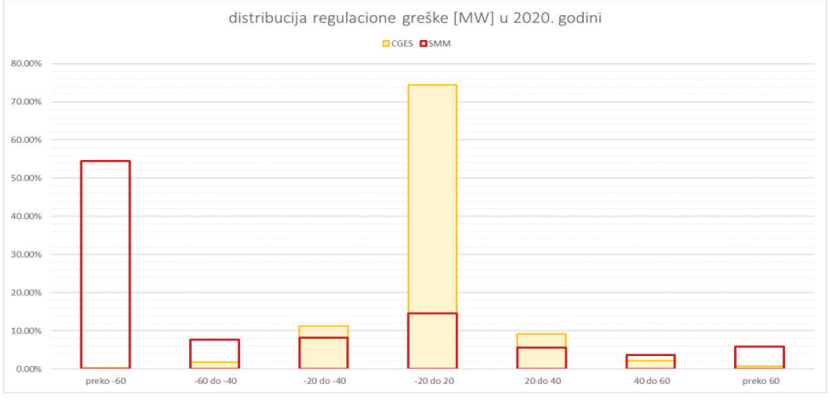
A particular challenge for the staff involved in system operation planning the was to provide preconditions for outages necessary for the implementation of projects of modernisation of protection and control in 110/35 kV substations and replacement of switching equipment in 110 kV plants.

The importance of the project, which is confirmed by its financing from the EU grant, combined with the fact that the works are being performed in 15 substations in our system during the COVID-19 pandemic, speaks enough about the complexity of the situation we found ourselves in. 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, thanks to the efforts of CGES' competent services, there have been no significant disruptions in power supply of users for this reason.

System Regulation

CGES is obliged to regulate the power of exchange with the neighbouring electric power systems, limiting unexpected unbalances in the range -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 75%) is shown.
During 2020, a series of upgrades of the monitoring and control system were implemented, the application of which is expected to further improve the regulation of the Montenegrin electric power system. INOM (Inbalance Netting Optimization Module) of the new system was developed, which in testing proved to be a significant tool that will relieve local regulation capacities with potential financial savings for all members of the SMM bloc. Virtual overhead lines towards EMS and MEPSO were created, enabling cooperation of this kind and calculation of engagement. The integration of HPP Piva into secondary regulation and implementation of this upgrade on the new SCADA-EMS system is in progress.



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.**

Basic quality indicators relating to transmission system:

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

- **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 interruptions (outage) in electricity supply, expressed in MWh on a yearly basis.

The table below shows the quality indicators in 2019 and 2020:

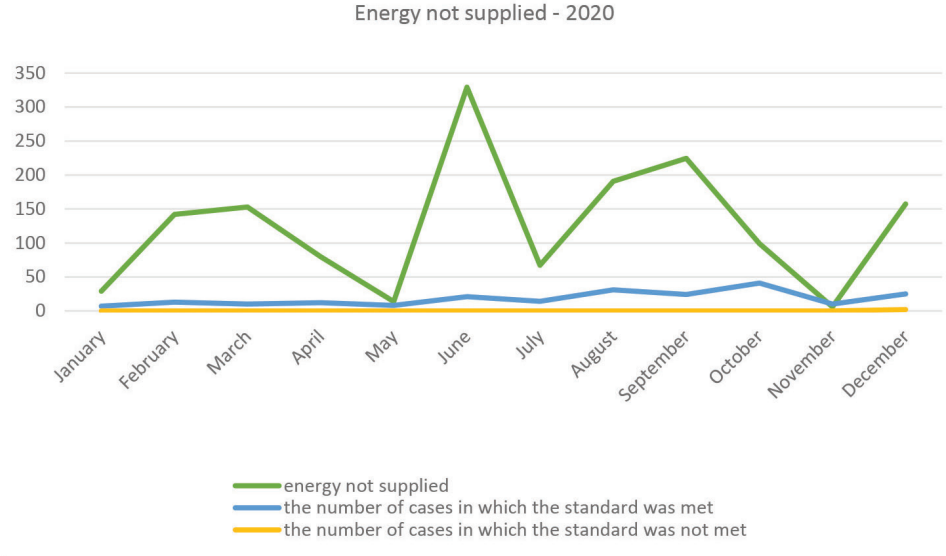
Year	2019	2020
ENS (MWh)	2.827*	1.492
AIT (h)	7.58	4.25

** During extreme meteorological conditions on 10 January 2019, in the period 8:18-15:20h, we had ENS 1,294 MWh (consumption of SS Ulcinj, Bar and Virpazar)*

According to the Rules of Minimum Quality Requirements for Electricity Delivery and Supply, the amount of energy not supplied due to unplanned outages amounted in 2020 was 47.22% lower than in 2019, while AIT was lower by 43.93%. In addition to the obvious improvement of quality indicators in 2020, it is important to point out that the ratio of not supplied and transmitted electricity is twice lower than in 2019 and amounts to 0.04%.

Through the improvement of both network infrastructure and operational procedures, CGES is constantly making efforts to improve the indicators of the general minimum of transmission quality.

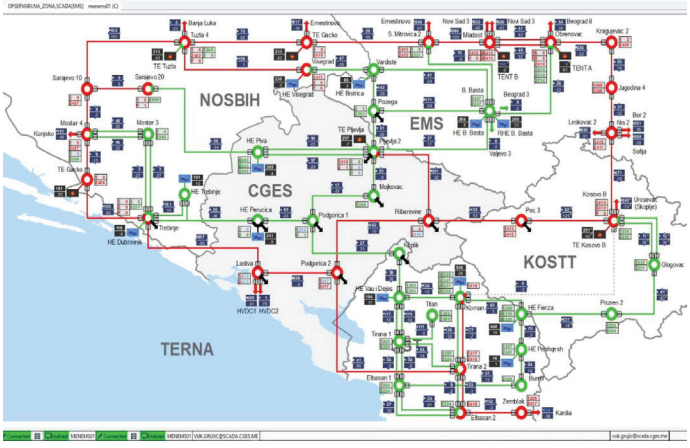
Total interruption time and energy not supplied during 2020		
	planned	unplanned
Total interruption time from the beginning of the year (min)	12.283	23.296
Total energy not supplied - ENS from the beginning of the year	0	1.492,001



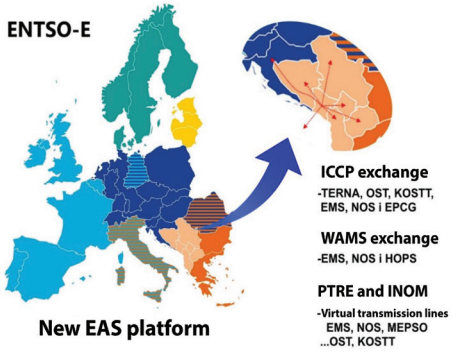
Taking into account that the prescribed deadline for fulfilling the obligations of the transmission system operator is 24 hours, we point out that only in 0.9% of cases (2 out of 216) this standard was not met.
Out of 163 unplanned outages, 49.7 % was caused by force majeure i.e. by extreme meteorological conditions.

Increased Observability, Control and Cooperation

The new SCADA/EMS system (Supervisory Control And Data Acquisition/Energy Management System), implemented at the location of NDC (National Dispatching Centre) and RDC (Reserve Dispatching Centre), continuously contributes to safer and more efficient transmission system operation.
In the previous year, a series of upgrades of the supervision and control system was implemented through the integration of new facilities, establishment of communication and data exchange with partners from the country and the environment, as well as commissioning of a module for cooperative control of the block regulation error. Final works on the integration of HPP Piva into secondary regulation, as well as the establishment of data exchange WAMS (Wide Area Monitoring System) with NOS and HOPS, are in progress.



In addition, the implemented project of smart access and supervision of the process network - SGM (Smart Grid Manager) facilitated and accelerated the work of departments of SCADA, Protection and Testing, Maintenance and Metering and gave an invaluable insight into the state of the system with numerous metrics and statistics related to primary and secondary equipment, power flows, meteorological conditions, etc.



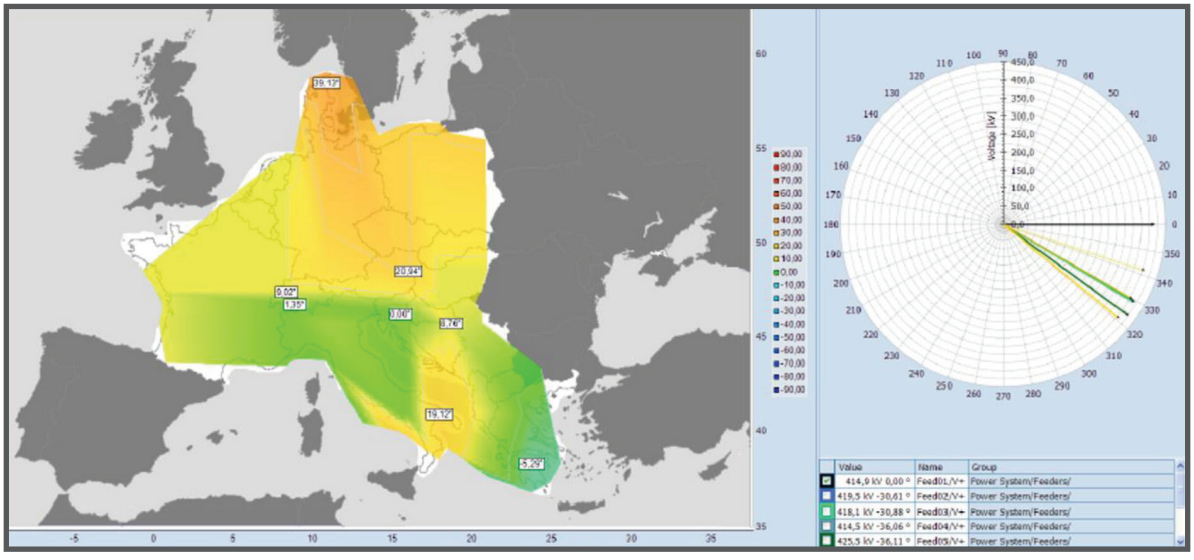
Physical and Virtualised Cooperation

The number of partners with whom we exchange data has increased, either for greater observability of the system and monitoring of possible disturbances, or for stronger regulation action. A large number of physical connections was established with ICCP servers in the country, ICCP and WAMS servers in the area, as well as a larger number of virtual overhead lines with remote partners and for specific purposes of calculation and monitoring of power flows. All this with the new remote access system and SGM significantly improved the quality and representation of all processes within our system.

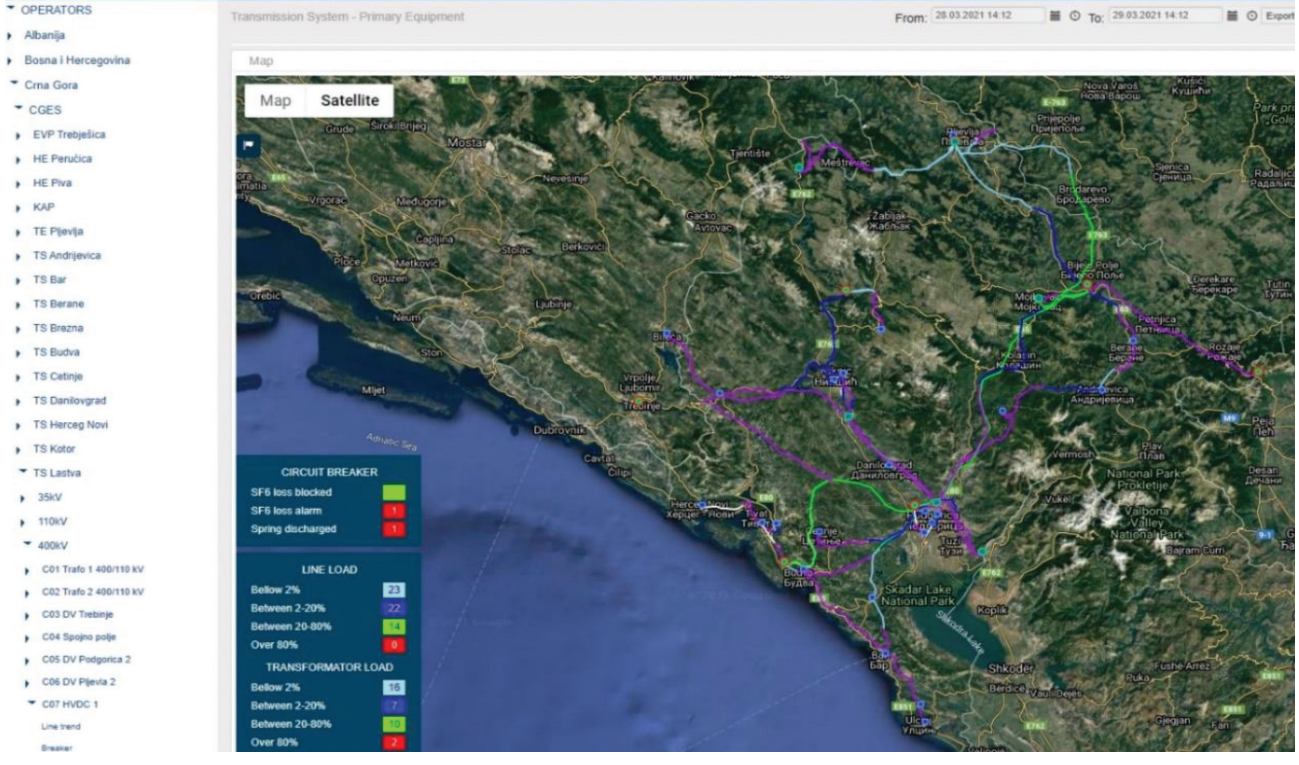
The development of a new EAS (ENTSO-E Awareness System) platform, which will extend the observable zone on the new system from the neighbours to the entire community of European transmission system operators, is in progress.
The converter plant Kotor - Terna was integrated into the new SCADA/EMS system, and in cooperation with colleagues from the Italian TSO, ICCP communication was established through which we now exchange relevant metering and data, contributes to a higher degree of utilisation of transmission capacities Montenegro - Italy.
Bilateral data tables were also exchanged with colleagues from OST and KOSTT, with consequent successful testing of ICCP communication and accuracy of all metrics.
Works on the expansion of the WAMS platform are in progress, so in the near future CGES will receive critical data, in a resolution of 20ms, from the transmission system operators of BiH and Croatia, in addition to the existing exchange with EMS-Serbia.

Smart Grid - Secure and Reliable System

With the successful implementation of the SGM project, the advantages of digitalisation and modern microprocessor equipment in CGES substations and switchyards gain even more importance and reach their full potential. The competent services can now remotely access any device in the plant and possibly eliminate problems.



The SGM application provides insight into almost all process values in the electric power system, with a geographical display and a database that is of great importance for the organisation of business activities, monitoring the state of the network and equipment. All this in an ergonomic way provides in insights into system operation and timely response which significantly improves the activities we undertake to preserve the reliable and safe operation of the system and contributes to the efficiency of the technical services of CGES.



12. CROSS-BORDER TRANSMISSION CAPACITIES AND MARKET OPERATIONS

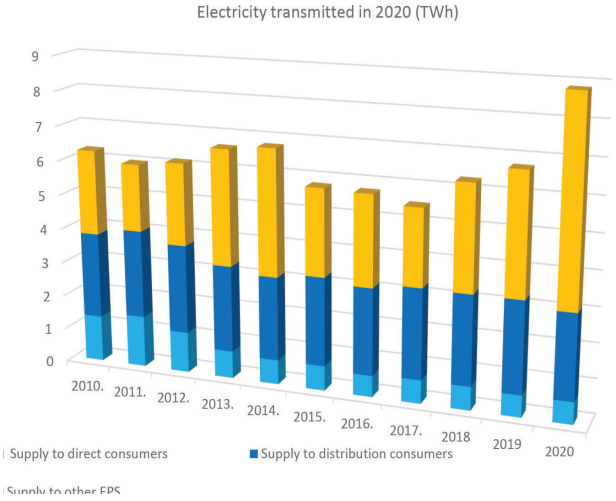
By putting the new infrastructure and physical connection to the electricity transmission system of Italy via HVDC submarine cable into operation, the electricity markets of Southeast Europe gained a direct connection with the electricity market of EU countries through the electricity system of Montenegro. CGES, together with colleagues from Terna, Italy, improved the **Allocation Rules for Forward Capacity Allocation on Italy- Montenegro Border** and the **Rules for Daily Capacity Allocation on Italy-Montenegro Border**, which were approved by the Energy Regulatory Agency in November 2020. In addition, the Energy Regulatory Agency approved the updated **Auctions Rules for Allocation of Transmission Capacities on the Border of the Regulation Areas of Elektromreža Srbije AD Beograd (EMS) and CGES.**

In addition, in the last quarter of 2020, 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 on the border with the Kosovo Transmission System Operator (KOSTT). In 2020, it functions as an independent control area.

Thanks to this and by implementing these rules, CGES has 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 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 has recognised the need to integrate the market in Southeast Europe with neighbouring EU countries, especially given the close physical connection provided by the HVDC submarine cable between Italy and Montenegro.

13. ELECTRIC POWER INDICATORS



Electricity Transmitted

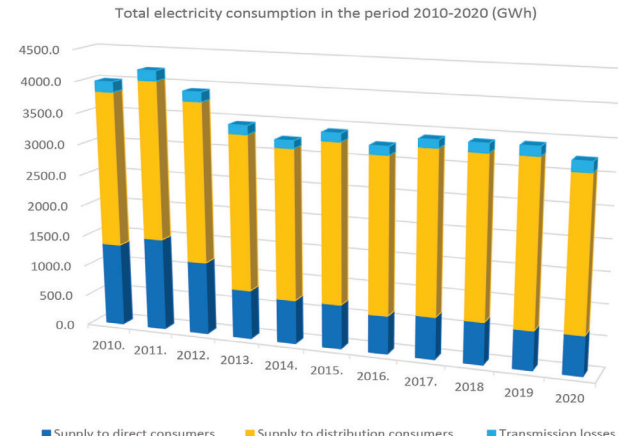
In 2020, CGES' network transmitted a total of **8,845.93 GWh** of electricity for the needs of the Montenegrin electric power system and the transit of electricity for the needs of other systems and the interconnection.

With the commissioning of the HVDC cable to Italy, in 2020, we record a remarkable growth in the total transmitted energy provided by CGES. Namely, compared to 2018 and 2019, a growth of 40.82% and 31.37%, respectively, was achieved.

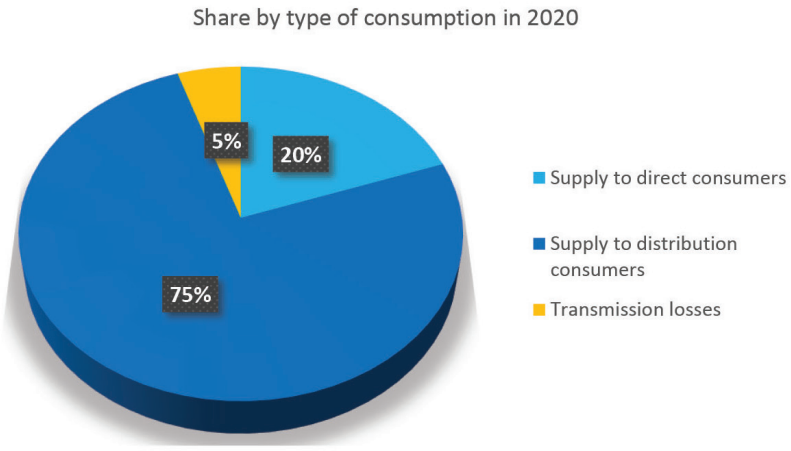
Electricity Consumption

In 2020, the total electricity consumption in Montenegro amounted to 3,238.63 GWh, which is 4.9% lower than in 2019, and was caused by a decline in consumption at the distribution level caused by the COVID-19 pandemic.

Consumption			
Years	2019	2020	razlika
Supply to distribution consumers	2.636,055	2.441,285	-7,4%
Supply to direct consumers	623,274	633,755	1,7%
Transmission losses	146,461	163,589	11,7%
Transmission losses rate compared to the total transmitted electricity	2,13%	1.82%	-14,6%
Total:	3.405,79	3.238,63	-4,9%



With the commissioning of the HVDC submarine cable, there was an increase in electricity transit through the transmission system of Montenegro. Thanks to higher utilisation of the network of the highest voltage level, the rate of transmission losses compared to the total energy transmitted in 2020 was 1.82%, unlike 2019 when it had a value of 2.13%.



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 19 January 2020, when import amounted to 26,792.90 MWh, with a transit of 25,032,397 MWh. On that day, the maximum value of transit was realised in the value of as much as 1,273 MW at 17h.

Below is an overview of the maximum/minimum system load as well as the achieved maximum and minimum consumption on a daily basis in 2020.

In 2020, peak consumption in Montenegro was 547 MW, compared to 605 MW in 2019.

Maximum power			Maximum daily consumption	
MW	Hour	Day	MWh	Day
547	19	06.02.2020	11155,68	22.01.2020
Minimum power			**Minimum daily consumption**	
MW	Hour	Day	MWh	Day
214	7	03.05.2019	6913,73	22.05.2019

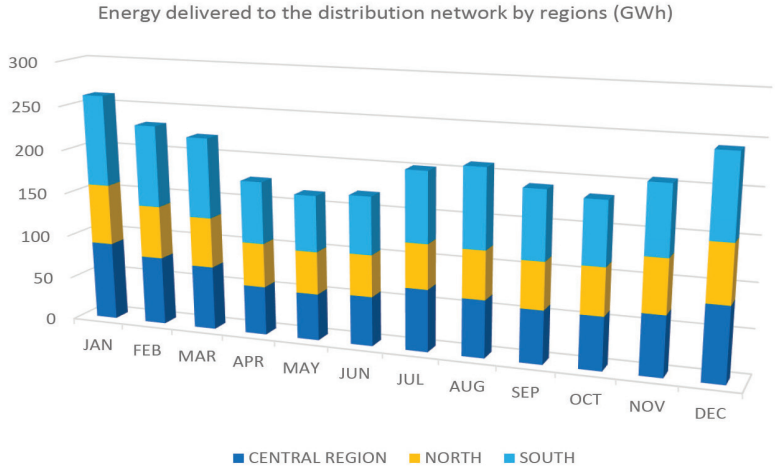
That peak was recorded on 6 February 2020 at 19h.

The minimum consumption of 214 MW was recorded on 3 May 2020 at 7h.

The highest daily consumption was realised on 22 January, while the lowest on 22 May 2020.

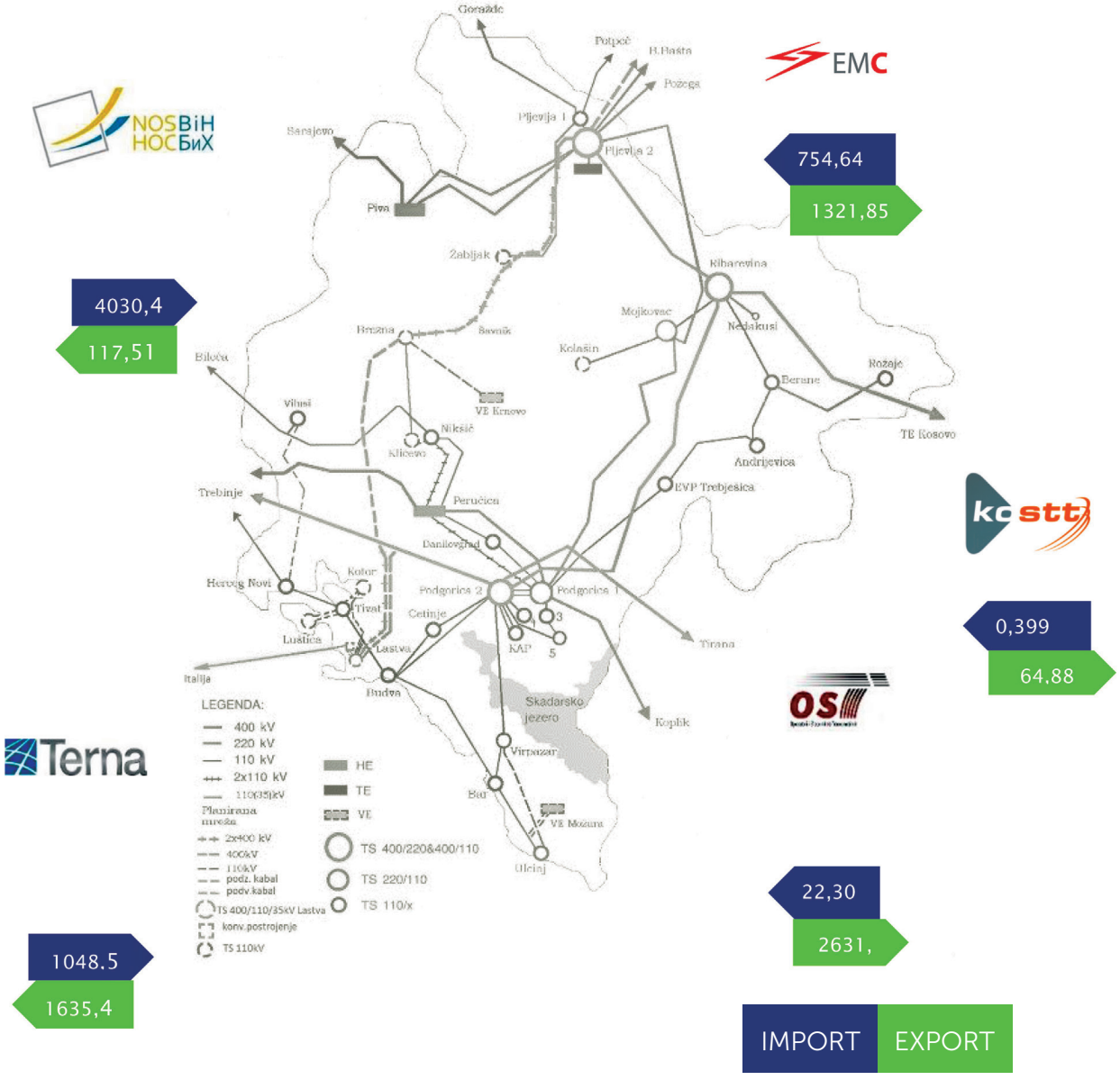
Electricity Delivered to the Distribution Network

Due to the COVID-19 pandemic, the decline in consumption at the distribution level is reflected especially in the summer months of July and August, when it is common to record maximum consumption on the coast, with a characteristic peak. During 2020, the trend of energy delivered to the distribution network was quite balanced and is presented in the following diagram.



Electricity Exchange by Borders

Below is a diagram of the Montenegrin electric power system with the exchange of electricity by borders (GWh) in 2020.



14. INFORMATION AND COMMUNICATION TECHNOLOGIES

Optical Fibres at the Heart of Smart Grids

The condition for efficient operation of the transmission system operator (TSO) system is the existence of a telecommunication system for the transmission of technical and business data.

The telecommunications network is also used for the exchange of data on the operation of electric power systems of European countries in real time, with the aim of ensuring the security of the electric power sector in Europe.

The development of CGES' optical network is in line with the development of the networks of neighbouring transmission system operators.

According to the ENTSO-E recommendations, during 2020, for the needs of the Physical Communications Network (PCN), 50 Mbit/s links were implemented with neighbouring transmission system operators (EMS, NOSBiH and OST). The PCN network is expected to integrate current real-time and offline data exchange.

CGES' optical network, as of 31 December 2020

- CGES owns about 857 km of optical infrastructure based on fibre optic embedded in a ground wire (OPGW- Optical Ground Wire).

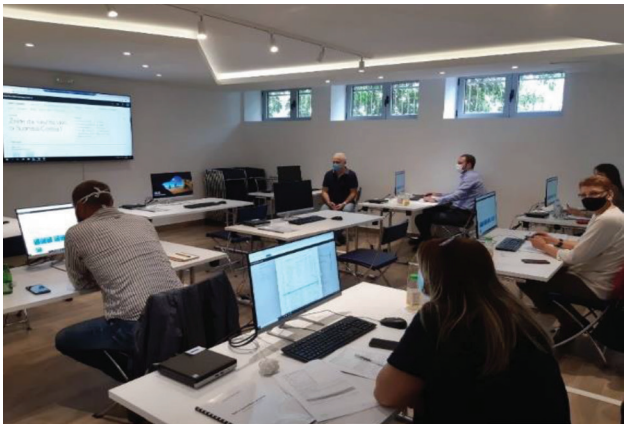
- By this infrastructure, CGES is also connected to neighbouring systems, and through them to all TSOs in ENTSO-E, exchanging data in real time using the Electronic Highway network.

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 telecommunications market of Montenegro. CGES is an operator registered to provide optical fibre lease services, and during 2020, a new contract was signed with one electronic communications operator for the lease of two optical fibres in the length of 430 km.

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. In 2020, an optical link was implemented on the route SS Podgorica 1 - SS Podgorica 4, with a combination of OPGW cable and underground optical cable.

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 began. 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 2020, in order to increase the efficiency of the Company, modernisation and digitalisation of corporate business processes, the implementation of several capital projects in the field of information technology began.
The implementation of the new **Enterprise Resource Planning (ERP)** system (Microsoft Dynamics 365 Business Central solution) stands out with its scope, importance and complexity. The implementation will be completed and the system put into operation in the first half of 2021, after which work on the implementation of the Document Management System (DMS) will begin.

In order to ensure **business continuity,** in case of incidents, natural and other disasters, the implementation of **Disaster Recovery (DR) Data Centre** began. In this way, the employees of the Company will be provided with unimpeded access and use of business information systems in case of any of the stated unforeseen circumstances. By the end of 2020, the first phase of the project was completed, in which the necessary preconditions for the commissioning of the DR Data Centre were created.

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 2020, the NDC Data Centre implemented new generation network equipment (redundant firewall devices, 10Gb L3 core switches, etc.), which significantly improved network security, increased data exchange speed, established more efficient traffic control and possible malicious online activities. In addition, by implementing new routers and Wi-Fi equipment in all substations, they were connected to the computer LAN network and user access to CGES' Wi-Fi network was enabled.

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. In order to increase protection against data loss, a system for back-up of key workstations was implemented. Increasing protection against internal threats to CGES' IT resources was implemented through the record management and monitoring system, while protection against external threats was implemented by NGFW (Next-Generation Firewall) solutions. The implementation of the monitoring and management system, as well as the service desk application, enabled the automation of IT processes within the Company.

During 2020, information security policies and procedures based on the principles of the ISO27001 standard were adopted. The implementation of these policies will begin in 2021. 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 COVID-19 epidemic, 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.

15. TRANSMISSION SYSTEM FACILITIES

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.

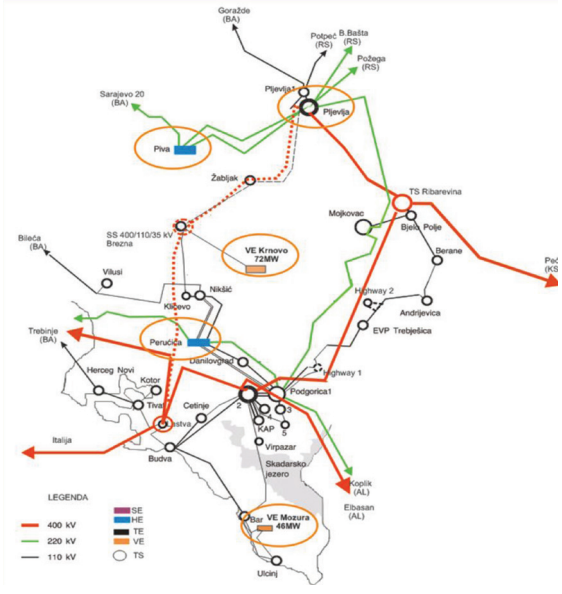
Crnogorski elektroprenosni sistem AD Podgorica owns 1,411 km of overhead lines as follows:

- 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, 568.2 km in length,
- 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,

and an installed power of 3866.5 MVA in:

- 4 substations 400/x, (2,035 MVA),
- 2 substations 220/x , (616 MVA), and
- 19 substations 110/x, (1,215.6 MVA).

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

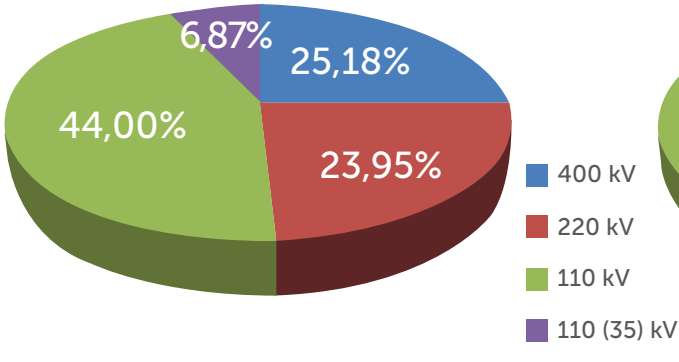


View of transmission line lengths by voltage levels

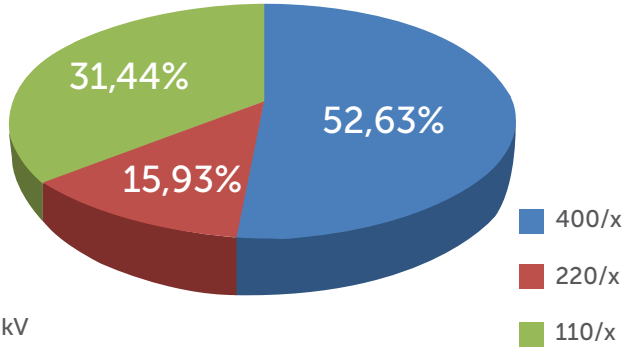
Transmission network of Montenegro 2020

- 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.

View of transmission line lengths by voltage levels



View of transformer installed power



Transmission System Users

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,
  - Railway Infrastructure of Montenegro,
- CEDIS, which through distribution network supplies around 400.000 registered distribution consumers with electricity.

Operating, Testing and Maintenance

Care of 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.

Plan and Implementation of the Examination of Protection and Testing of Equipment in 2020

During 2020, planned activities related to the control of protection and testing of the condition of the equipment were implemented in the amount of about 95%.
During 2020, the Protection and Testing Department carried out 20 emergency interventions.

Plan and Implementation of Examinations and Overhauls of Substations in 2020

The plan of revisions and examinations of both overhead lines and substations was fully implemented.

In addition to the planned overhauls, examinations and testing, equipment replacements in substations and on overhead lines were performed. During 2020, based on the plan and the results of inspections examinations and tests, the replacement of HV circuit breakers, disconnectors, instrument transformers, surge arresters as overhead line equipment was performed.

From investments in existing facilities in 2020, it is important to point out the implementation of revitalisations of 110 kV OHL Herceg Novi - Trebinje (replacement of conductors, ground wire, insulators and jointing and suspension equipment), installation of 110/35 kV transformers in SS Kotor and SS Nikšić, which significantly improves the operational readiness of the electricity transmission system and thus the safety and quality of electricity supply to consumers.

16. OCCUPATIONAL SAFETY AND HEALTH

Within the permanent activities of the Company to ensure adequate occupational safety and health of employees, in accordance with the Occupational Safety and Health Law as well as best practices related to occupational safety and health, during 2020, numerous activities were performed in the field of occupational safety and health:

- The following documents were adopted:
  - Occupational Safety and Health Rulebook,
  - Employees Safe Work Training Programme,
  - Procedure on the process for checking alcoholism and the presence of other psychoactive substances and addictive substances,

- Risk Assessment Act with the Standards of personal and collective protective assets and equipment at work was drafted.

From the aspect of health, 2020 was marked by the COVID-19 pandemic.
Crnogorski elektroprenosni sistem, before the first cases of Covid-19 infection in Montenegro were confirmed, took adequate measures and actions to prevent the import and its spread among employees. All instructions and recommendations of the competent authorities were implemented.
In order to prevent the import and spread of the coronavirus, CGES made sure to provide protective assets for all its employees.
As, regardless of the pandemic, CGES is obliged to ensure quality and safe operation 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 competent institutions, a Plan of Engagement and Organisation of Work was prepared in 2 scenarios :

- Scenario 1: Performing all regular activities with a minimum stay at work, and
- Scenario 2: Minimum work process.

A Team for Preventive Action and Crisis Staffs, to activate in case of transition to Scenario 2, have been formed whose tasks are preventive action to impede the import and spread of the coronavirus, i.e. implementation of measures, recommendations and decisions adopted by the Government of Montenegro.
Meetings were held predominantly over the internet, so regular activities, coordination and communication among employees, even in the case of work from home, take place without problems.

17. ENVIRONMENTAL PROTECTION MEASURES

During 2020, activities on the implementation of the ISO 14001 Environmental Management System within the Integrated Management System (ISO 9001, ISO 14001 and ISO 45001) were implemented. Activities related to the Minutes and Decisions of the Environmental Protection Inspectorate were monitored.

Waste management as one of the important activities that is conducted to protect the environment is carried out in accordance with the principles of sustainable development, i.e. efficient use or resources that implies: prevention of waste occurrence when possible, proper waste storage (especially of hazardous waste), preparation of existing waste for reuse, recycling or getting energy, and allows to preserve the environment from negative impact arising from working processes. CGES AD treats waste pursuant to the Law on Waste Management and according to the "Waste Management Plan of CGES AD". Annual waste management reports are submitted to the Agency for Nature and Environment Protection of Montenegro and MONSTAT (Statistical Office of Montenegro).

Most of the waste produced is recycled. During 2020, out of about 250 tons of waste produced, 210 tons were recycled.

18. INVESTMENTS IN 2020

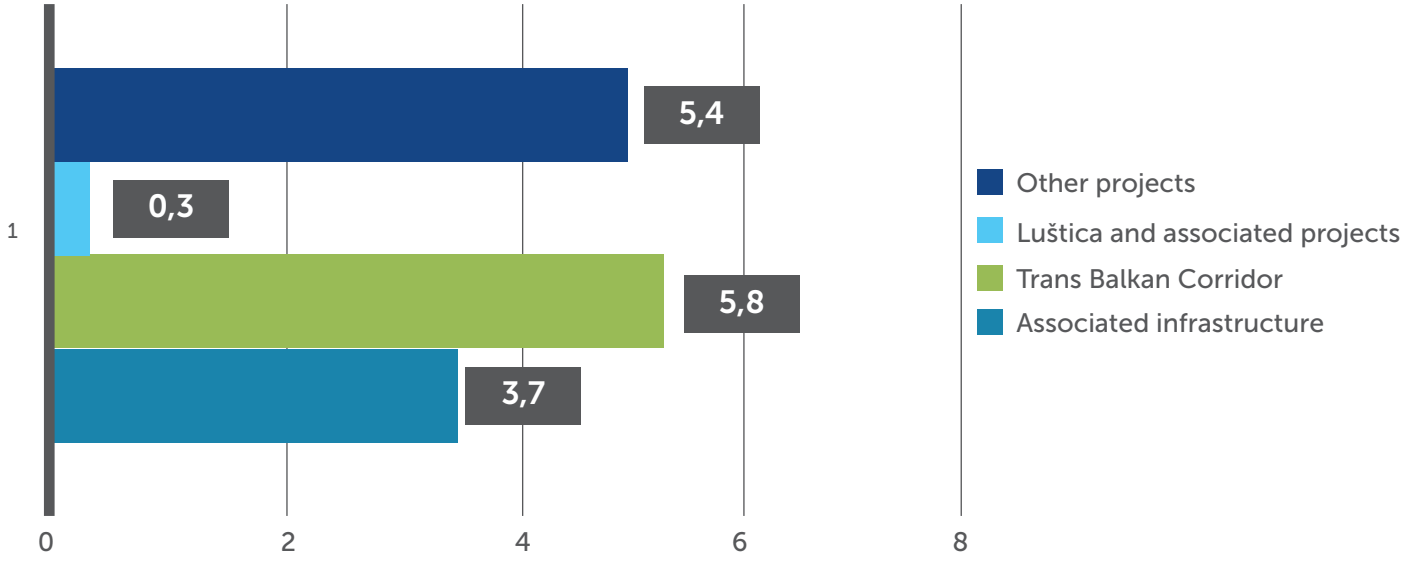
The 2020 Investment Plan envisaged activities on the implementation of 58 projects. Investments were implemented in the amount of €15.2 million. Investing in investments that were implemented or partially implemented are related to:

- Associated infrastructures 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.

It should be noted that some of the very important projects, such as providing 110 kV bidirectional power supply for SS Podgorica 4, revitalisation of 110 kV overhead lines, procurement of 110/35 kV power transformers for SS Kotor and SS Nikšić and others, were completed in this period, which significantly increased the of reliability power supply of the areas concerned.

The implementation of investment projects, in the year behind us, was a special challenge due to the problems brought with it by the coronavirus pandemic. Many activities were carried out in very specific conditions, from the procurement of equipment to the execution of works, different way of communication and the work of many participants in the business process of investments implementation. In addition to the pandemic, a major challenge is the slow resolution of property and legal problems and the consequent provision of conditions for the execution of works. These problems, due to circumstances that are not within the competence of CGES, negatively affect the implementation of the planned, especially when it comes to significant infrastructure projects. Despite this, CGES has one successful business year behind it.

Capital investments in mil €

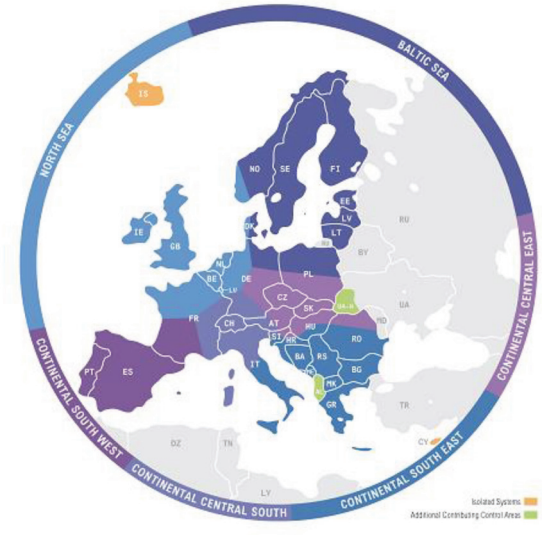


Further Development

CGES will continue to invest in the construction and modernisation of the transmission network and facilities also in the following period.
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, which will connect the Balkan countries, from Romania through Serbia, BiH and Montenegro, to Italy. 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. 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.

19. INTERNATIONAL COOPERATION

Bearing in mind that the Law on Cross-Border Exchange of Electricity and Gas stipulates, inter alia, that cross-border electricity transmission may be performed by a transmission system operator (TSO) that has an established system of international cooperation, and that the said Law prescribes the international cooperation of a TSO as a duty, the obligation of CGES is to continuously realise and improve international cooperation within its business, both at the regional and European level.



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 2020, 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 within ENTSO-E (European Network of Transmission System Operators for Electricity), which today counts 42 members from 35 European countries. The aim of cooperation, declared in the Regulation of the European Parliament 714/2009 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. In addition, one of the most important goals of the ENTSO-E organization is to actively support the European power and climate agenda, as well as the integration of a high level of renewable energy sources into the European power system.

During 2020, CGES' representatives participated in the work of the System Development Committee, the AIM (Asset Implementation Management) Group within the System Development Committee, the Data and Models Subgroup, the Research, Development and Innovation Committee, Development and Innovation Committee), the System Operation Committee (SOC) and the Regional Group Continental Europe (RG CE), PG KOSTT, FSkar implementation, Sub-Group Coordinated System Operation (SG CSO) and the Electronic Highway Technical User Group.

Also, CGES' representatives participated in the work of the International Grid Control Cooperation Expert Group (IGCC), Market Committee, Congestion Management and Market Integration (CMMI), Legal and Regulatory Group (LRG), Southeast Europe Cooperation Initiative Transmission System Planning Project (SECI TSP), Network Models and Forecasting Tools Group (NMFT) Forecast Tools) as well as in System Protection & Dynamics (SPD).

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 2020, in addition to the Assembly, CGES' representatives participated in monitoring and work of the Regional Working Group East, Technical Committee Regulations and Institutions, Technical Committee Planning, Technical Committee International Electricity Exchange as well as in the work of the Economic Studies and Scenarios Group.

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 2020, CGES' representatives participated in the work of the Coordination Group for Cyber Security, the Central and South-Eastern European Gas Connectivity Initiative (CESEC), and the Projects of Energy Community Interest (PECI) and Projects of Mutual Interest (PMIs) Electricity Working Group).

Other international activities:

Electricity Market Initiative (EMI)

During 2020, 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 participate in the Know-how Exchange Program (KEP) implemented by the Central European Initiative (CEI), through participation in a large number of trainings that address 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 (Albania, Italy, Montenegro, Serbia) Working Group

CGES, through its representatives, participates in the work of the AIMS Working Group, which aims to create preconditions that will enable the coupling of the electricity markets of Albania, Italy, Montenegro and Serbia. In 2020, the work on the Analysis of Preconditions of the AIMS Project was completed. which represents a step forward towards achieving the goal of coupling markets between Albania, Italy, Montenegro and Serbia. The document takes into account and analyses the key preconditions that need to be met to achieve this goal and provides key challenges that could block or delay the implementation of this initiative.

Southeast Europe Task Force

CGES' representatives participate in the Southeast Europe Task Force, which brings together representatives of transmission system operators from 6 non-EU Western Balkan countries

and 6 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

Crnogorski elektroprenosni sistem AD 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. A permanent working group has been stablished within CGES in charge of the operation within the SMM Control Block.

Utility Cyber Security Initiative (UCSI) for the Balkans (United States Energy Association - USEA)

In 2020, activities and topics that were current in this working group relate to the assessment of cyber security, activities undertaken in this direction with special emphasis on the implications of COVID-19 on cyber security. In addition to strengthening cyber security practices, the group's work focuses on raising awareness of threats and new vectors of attack, considering the implications of social distance in own strategies and responding to incidents.

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 8 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).
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.

20. 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 2020, CGES' internal audit carried out the following activities:

- **Internal Audit Charter was adopted:**

The Internal Audit Charter is an internal act that sets out the framework rules, principles and procedures of internal audit activities within the existing organisational structure of CGES.
The reason for the preparation of the new Internal Audit Charter lies in the adoption of the Law on Governance and Internal Control in Public Sector, which more clearly and precisely regulates the issues of governance and internal controls, and especially the management, establishment, implementation and development of internal controls.

In accordance with the above, the Internal Audit Charter was adopted.

- **Internal Audit Work Plan for 2020 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 compared 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 Work Plan for 2020 was adopted.
The Internal Audit Work Plan for 2020 envisaged the implementation of the following audits:

1. Calculation and payment of salaries and other personal income;
2. Granting financial assistance to employees;
3. Audit of the established management and control elements; and
4. Regulatory allowed revenue calculation and reporting.

Having in mind the effect of the COVID-19 pandemic on the entire business of CGES, as well as on the work of internal audit, during 2020. the following audits were implemented:

1. Calculation and payment of salaries and other personal income;
2. Audit of the established management and control elements; and
3. Ad hoc audit occupational safety and health processes.

In addition, the audit of granting financial assistance to employees began. However, due to objective circumstances, it was not completed in 2020. At the same time, the audit of the process of operational control of the electricity transmission system was formally concluded.

- **Monitoring of the implementation of internal audit recommendations was provided**

In accordance with the new Internal Audit Charter, the Internal Auditor monitored the implementation of the accepted recommendations and semi-annually informed the Board of Directors thereof.

- **Internal Auditor Continuing Professional Development Plan for 2020 was adopted**

By proceeding in accordance with the International Standards for the 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 the Internal Audit Charter (No. 1784 of 11 February 2020), the Internal Auditor Continuing Professional Development Plan for 2020 was adopted. Accordingly, The internal auditor is given the opportunity to improve her knowledge, skills and other abilities through continuous professional development.

- **Preparation of the Internal Audit Strategic Plan 2021-2023 and the Internal Audit Work Plan for 2021**

Pursuant to Article 24 of the Law on Governance and Internal Controls in Public Sector (Official Gazette of Montenegro, No. 75/2018), the Internal Audit Strategic Plan 2021-2023 as well as the Internal Audit Work Plan for 2021 were prepared and proposed to the Board of Directors. At the meeting held in late December 2021, at which the Board of Directors considered the documents, certain amendments were proposed that were implemented during the preparation of the final version.

21. 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 2020, 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 2020;
- 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.

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Our audit approach

Overview

Materiality	• Overall Company materiality: EUR 1,406 thousand, which represents 0.5% of the Company's total assets.
Key audit matters	• Revenue recognition – sale of imbalance power • Provisions for litigations and claims

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 1,406 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 48,748 thousand, including revenue from sale of imbalance power of EUR 5,349 thousand, fully compensating incurred costs for purchase of imbalance power, for the year ended 31 December 2020. 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 for overemployed reactive electrical energy) is generated through a nationwide imbalance settlement procedure, 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 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, - 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.

Provisions for litigations and claims

Refer to note 2.12 (Summary of accounting policies) and note 13 (Long-term provisions).

The Company has recognised provisions for litigations and claims in the amount of EUR 934 thousand as at 31 December 2020.

There are a number of threatened and actual legal cases against the Company.

Risks and uncertainties from such litigations and potential claims need to be carefully assessed and analysed by the management. The assessment of outcome from legal proceedings and the potential need of provisions is an area of significant judgement involving the legal situation as well as factual circumstances together with the risk of a financial impact. For those reasons we have selected provisions for litigations and claims as a key audit matter.

For provisions for litigations and claims our procedures included the following:

- assessing the design and implementation of the procedures related to the process of recognising and evaluating litigations and claims,
- obtaining detailed listing of litigations prepared by the Company's legal service department and analysing the reasonableness of the amounts recognised in the annual accounts,
- obtaining lawyer letters from the external legal advisors of the Company,
- testing of provisions related to ongoing litigation procedures and analysis through evaluation opinions provided by both external and internal legal representatives of the Company,
- readings of the minutes of board of directors' meetings and inquiries to the management.
- assessing management's conclusions through understanding precedents set in similar cases.

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.

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Refer to the original signed Montenegrin version

Biljana Bogovac
Licensed auditor

Refer to the original signed Montenegrin version

PricewaterhouseCoopers d.o.o., Podgorica

Podgorica, 20 April 2021