



OPERATING STATEMENT

OF CRNOGORSKI ELEKTROPRENOSNI
SISTEM AD FOR THE YEAR 2019

Podgorica, MAY 2020

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1. Opening Statement

Vesna Bracanović

Chairwoman of the Board of Directors



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

I am particularly pleased that our company continued to achieve its goals and remarkable results in all segments of our activities in 2019, in which we marked 10 years of successful business operation of CGES.

We dedicated ourselves to the implementation of development projects and maintenance of the existing transmission network. In order to preserve the stable operation of the system and security of power supply to consumers in Montenegro, we have invested 18 million euros and completed projects worth more than 40 million euros. Successful business results by which our company was recognized did not stay behind even at the end of 2019, in which, despite numerous challenges, we managed to make a profit of 3.6 million euros.

I would especially like to point out that in 2019,

by putting the Lastva substation into operation and connecting it to the transmission system, we created the preconditions for putting the undersea cable into operation and commercial use. This project, the interconnection between the transmission systems of Montenegro and Italy, completed the first phase of the project, the importance of which goes far beyond the borders of our country; it is important for both the Energy Community and the European Union, and we have proved that CGES is a reliable partner in the implementation of the projects of regional significance.

With the same commitment, we have worked on other projects that will make the transmission network in Montenegro more reliable and secure and provide its current and future customers with a better quality electricity transmission service.

We continued to actively participate in the work of ENTSO-E and other organizations, as well as joint regional companies, and in addition to the primary obligation to ensure the operation, maintenance and development of the transmission system, through the activities relating to corporate social responsibility, we affirmed a responsible attitude towards our community.

The results we have achieved are not accidental. They originate from strategic and careful planning, responsible and duly decisions, perseverance and dedication in achieving the set goals. Everything we have achieved so far creates even higher expectations, therefore, in the next period we will continue to work with the full commitment and involvement of the management and all employees of CGES.

Opening Statement

Dragan Kujović

Executive Director



Dear shareholders,

The business of our company during 2019 was marked by good results from every aspect. The Company realized profit, implemented capital investment projects, adequately responded to all challenges we encountered and continued investing in strengthening the performance of the transmission network.

The fact that the transmission network in Montenegro is part of a technically integrated European transmission network, with its reliability affecting the security of power supply to consumers far beyond Montenegro, speaks volumes about the significance of launching and implementing numerous investment projects. Sixteen implemented investment projects, for which CGES earmarked approximately 18 million euros during 2019, speak best about the dynamic development of the transmission network.

We should definitely single out the activities concerning one of the greatest investment projects in Montenegro in general, the undersea interconnection with Italy. Thanks to the activities through which we completed the construction of the 400/110/35 kV substation Lastva and connected it to existing power grid by integrating the 400 kV transmission line

Podgorica 2-Trebinje into it, or the construction of the 400 kV transmission line Lastva-Čevo in the length of 2x35 km, the commercial use of the undersea interconnection commenced at the end of the year.

Besides, activities have been intensified in respect of the Trans Balkan Corridor to connect the Balkan countries with Italy, for which Montenegro, i.e. CGES, received a European Union grant in the amount of 25 million euros. Within this project, a contract was signed with the contractor and specific activities commenced to reconstruct 15 substations regarding replacement of high voltage equipment, relay protection, auxiliary consumption and control. Furthermore, we are working on a feasibility study and development of preliminary designs for the future 400 kV transmission line Pljevlja-Bajina Bašta.

We have made a significant step forward in the integration of SCADA system into National and Back-up Dispatch Centre and its connection with 28 transmission infrastructure facilities, thus providing a control and monitoring architecture of two parallel and independent dispatch centers in the main and back-up configuration, all in line with ENTSO-E standards.

We have earmarked approximately 3,5 million euros for maintenance, which is being carried out through preventive, planned and intervention activities, as well as capital investments in the revitalization of transmission lines and substations in 2019.

Thanks to the longstanding practice of socially responsible operations, CGES was one of the initiators of various actions in 2019, as well as a reliable partner to local communities and society as a whole, which we are particularly proud of.

We present this report as part of our responsible attitude towards you – our shareholders, institutional and business partners, wishing to witness the dynamic development of our company in the coming years as well.

2. Background

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 a multi-decade experience in development, operation, maintenance and control of the transmission system, acquired through a series of organisation forms within the Montenegrin electric power sector since 1957, when the first facility of the transmission network of Montenegro was commissioned.

Besides electricity transmission, the Company possesses also a license for providing services in telecommunications, thanks to its own

network of optical telecommunication fibres, approximately 850 kilometres long, across the country.

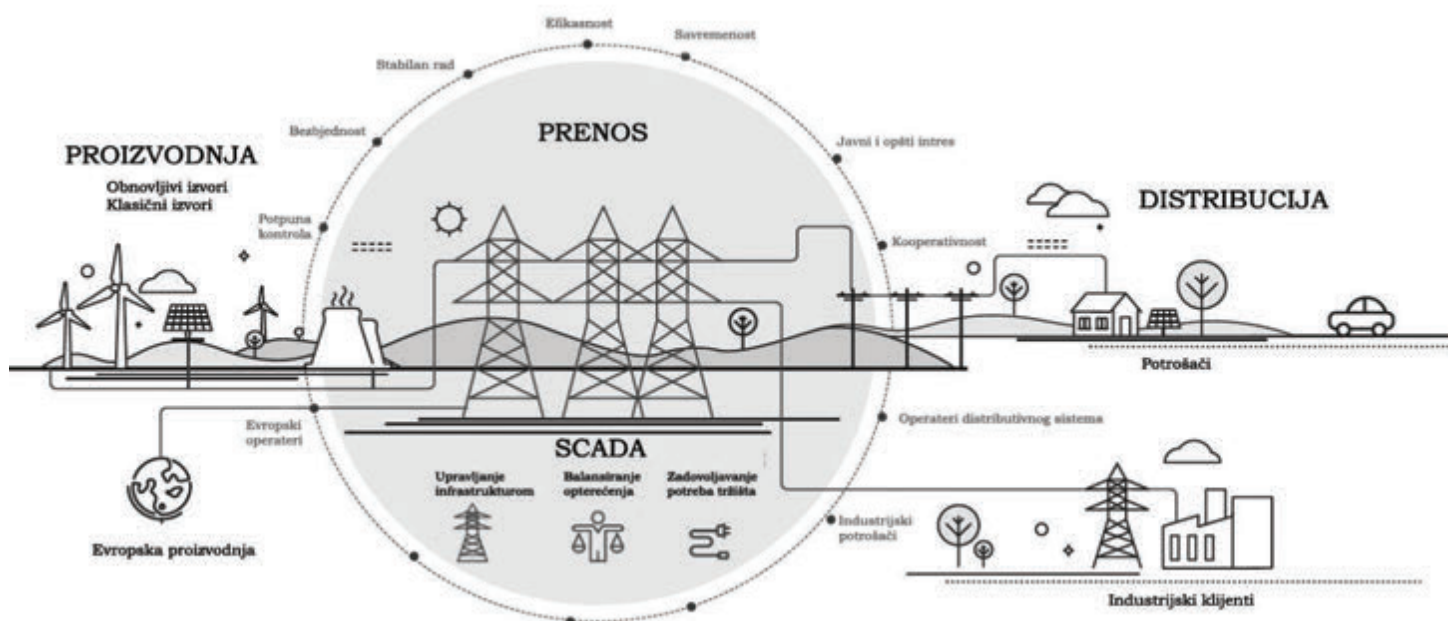
Besides the core activity, CGES has been performing an activity of laying electrical installations and equipment, designing civil and other structures, coarse civil works, other civil and specialised works as well as telecommunications.

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.

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. Ten years of CGES

From its beginnings until today, performing activities of public interest, CGES has always had the same objective - reliable operation of the transmission system to ensure stable electricity supply to all Montenegrin cities and citizens and support the development of the Montenegrin economy.

Since the establishment in 2009, about €155 million has been invested in the development of the transmission system, which resulted in an increase in the value of assets per employee by € 381 thousand, or 94%. An investment that marked the first decade of CGES' operation with its significance and value, implemented in cooperation with the strategic partner Terna, the largest transmission operator in Europe, is the commissioning of the submarine interconnection with Italy. A new 400 kV connector between Montenegro and Albania was constructed and, in addition to overhead lines of all voltage levels, for the first time in Montenegro, 110 kV underground cables were designed, constructed and commissioned. New and reconstructed substation were commissioned, while existing ones were expanded, from the north to the south of Montenegro, in: Mojkovac, Andrijevisa, Nikšić, Podgorica, Virpazar, Kotor and Lastva. The aforementioned increased the installed transformation capacity in the transmission system of Montenegro by 955 MVA, or 33%. Two new generation facilities with the installed capacity of 118 MW were connected to the transmission system, which represents additional 14% of generation capacities connected to the transmission system. A new SCADA system, as a state-of-the-art solution in the field of electric power system monitoring and control, was implemented. It was enhanced CGES' optical infrastructure, which with its 850 kilometres satisfies the existing and future needs of our Company and represents a commercial resource on the telecommunication market of Montenegro.

The energy sector has undergone significant changes in the last decade, which in Montenegro, where energy is one of the strategic directions of development, has significantly affected all energy entities. The need to ensure reliable transmission with an increasing number of renewable energy sources, increasingly stringent requirements in terms of supply quality, ensuring preconditions for connecting electricity markets in the regions, the necessity to coordinate procedures with other transmission systems in the interconnection, the harmonisation of rules in accordance with European trends and the implementation of state-of-the-art technological solutions to keep up permanently with ENTSO-E's requirements represent a constant challenge for our Company, but they also strengthen it day by day.

CGES will continue with investment activities also in the future, with the aim of contributing to the creation of preconditions for the development of the Montenegrin economy. In the next five years, the Company will implement projects worth over €100 million and, using modern technological solutions, will endeavour to meet the expectations of all users of the energy hub network in the region.

4. Key data for 2019



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

**7,19% ili
6.733,5 GWh**

More transmitted energy compared to 2018

30%

Increase in electricity transit compared to 2018



18,7 million

The amount of investments



305

The number of employees



600

Olives planted in SS Lastva



**40,6
miliona €**

Revenues



**12,9
miliona €**

EBITDA



**3,6
miliona €**

Net profit

5. Highlights in 2019

February 2019: Successful completion of testing of 400KV overhead line "Lastva-Čevo"

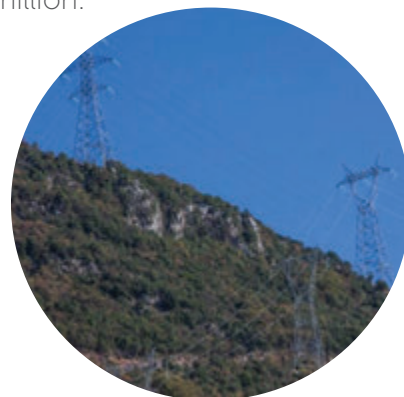
The functional and operational testing of 2x400 kV overhead line "Lastva-Čevo", the facility show entry into operation is necessary for the commissioning of the submarine cable between Montenegro and Italy, was successfully completed in mid-February.

March 2019: CGES paid dividend

Based on the decision of the Extraordinary Shareholders' assembly dated 31 December 2018, CGES paid a dividend to the Company's shareholders in the gross amount of €16.24 million.

April 2019: CGES energised 400KV overhead line "Lastva-Čevo"

After successful operational testing, on 2 April 2019, CGES energised 2x400 kV overhead line "Lastva-Čevo", which was connected to the existing 400 kV overhead line "Podgorica-Trebinje", thereby completely creating the preconditions for the continuation of testing the HVDC submarine cable, as well as both poles in the Kotor and Cepagatti converter plants, to make the submarine cable ready for commercial use.



April 2019: CGES and the Paralympic Committee signed sponsorship Agreement worth Eur 15,000

CGES renewed the sponsorship agreement with the Paralympic Committee of Montenegro. The value of the agreement is €15,000.

May 2019: CGES hosting the 49th CSO SG working group meeting

CGES hosted the 49th meeting of the Coordinated System Operation (CSO) SG working group, which was attended by members from 19 countries.



May 2019: Students of the Electrical school on practice in CGES

CGES provided students of the third grade of the High School of Electrical Engineering "Vaso Aligrudić" from Podgorica with practical education with the most modern equipment, in order to complete their education with more practice and thus better prepare for new life steps.



May 2019: Ninth trade union meetings of electricity transmission companies of Southeast Europe

The ninth sports meetings of the trade unions of electricity transmission companies of Southeast Europe, hosted by the Trade Union Organisation of CGES, were held from 27 to 30 May 2019 at the Hotel "Korali" in Sutomore.



June 2019: CGES and Water Polo and Swimming Association of Montenegro together in another season

CGES signed a one-year sponsorship agreement with the Water Polo and Swimming Association of Montenegro, worth €10,000.



June 2019: Ordinary Shareholders' Assembly

The Tenth Ordinary Shareholders' Assembly of CGES AD was held in Podgorica, in which shareholders unanimously adopted the Operating Statement for last year and financial statements with the independent auditor's report. Afterwards during the Assembly, the shareholders elected new members of CGES Board of Directors. On the same day, the constitutive meeting of CGES Board of Directors was held. Vesna Bracanović, BEcon, was re-elected as Chairwoman of the Board of Directors.

July 2019: 2020 - 2029 Transmission System Development Plan of Montenegro

In July 2019, CGES determined the 2020 - 2029 Transmission System Development Plan of Montenegro, which was approved by the Energy Regulatory Agency in October 2019.

4 July 2019: Prime Minister Duško Marković received the management of the Italian company Terna and CGES.

On the occasion of the successful completion of the submarine energy cable project connecting Montenegro and Italy, the Prime Minister of Montenegro Duško Marković received the management of the Italian company Terna and CGES.



July 2019: CGES celebrated its ten-year jubilee - Ten years since its establishment

The national company CGES AD celebrated its ten-year jubilee. For this ten years, by performing an activity of public interest, CGES has become a modern company, recognised for its investment momentum, ensuring a stable and reliable electricity supply to all users. Numerous implemented investment projects, modernisations and reconstructions of the network, in which as much as €155 million has been invested, have made CGES one of the leading companies in the country.



July 2019: CGES awarded contract for the procurement of works and goods – LOT I

After the successful implementation of the international tender for the procurement of works and goods needed for the implementation of the "Trans-Balkan Electricity Corridor" project, which is part of a larger initiative to enhance the electricity infrastructure in the Western Balkans and is implemented with the support of the European Union, a contract was awarded to the "Siemens-Elnos" Consortium, in the amount of €11.65 million.

August 2019: Contract signed for the supply and implementation of ERP and DMS system

CGES and the Consortium of companies Saga - Podgorica, NPS - Beograd and Čikom - Podgorica signed a Contract for the supply and implementation of ERP (Enterprise Resource Planning) and DMS (Document Management System), which will allow CGES to efficiently manage all resources and documents. More than a hundred employees will be involved in the implementation of this project.



September 2019: Students of Faculty of Electrical engineering visited SS "Lastva"

Twenty-six students in the first year of specialist studies at the Faculty of Electrical Engineering visited the "Lastva" substation and got acquainted with the latest high-voltage equipment solutions. This visit, which has become a practice in our company, is a confirmation of the symbiosis of CGES and the Faculty of Electrical Engineering.

September 2019: CGES signed with Krnovo Green Energy DOO Podgorica the agreement on purchase of constructed electric power infrastructure and the agreement on transfer of ownership right free of charge

CGES signed with Krnovo Green Energy DOO Podgorica (KGE) agreements on the purchase of constructed electric power infrastructure and on the transfer of ownership right free of charge for the needs of connecting WPP Krnovo to the electricity transmission system. The purchase of the infrastructure, worth €5,435,280.46, was funded by a grant from the Western Balkans Investment Framework (WBIF). The implementation of the aforementioned agreements ensured the permanent connection of WPP Krnovo generation facility to the transmission system.



December 2019: SCADA/EMS system put into operation

With this project, CGES has obtained a modern system for the supervision and control of the electric power system of Montenegro, as well as a complete system for electric power system analysis in both in both real and study mode. A supervisory-control architecture consisting of two parallel independent centres in main and backup configuration at two physically separated locations, National Dispatch Centre (NDC) and Redundant Dispatch Centre (RDC), was formed.



December 2019: Regulatory allowed revenue and prices for the period 1 January 2020 - 31 December 2022

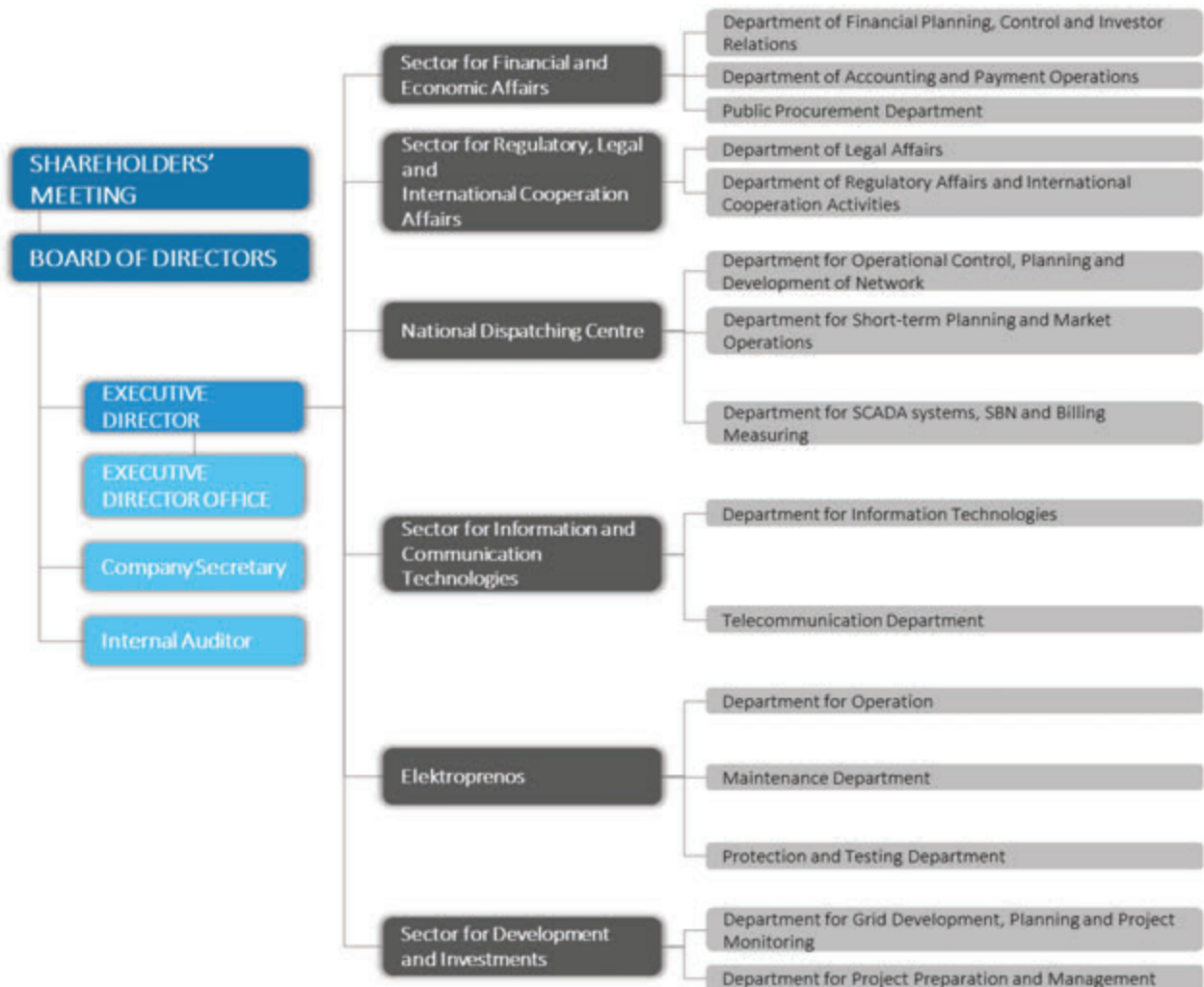
The Energy Regulatory Agency adopted a Decision on setting regulatory allowed revenue and prices for the use of transmission system for the period 2020-2022.

December 2019: Commercial use of submarine interconnection commenced

In late December 2019, an allocation of cross-border transmission capacities at a daily auction was performed, thereby commencing the commercial use of the submarine interconnection of Montenegro and Italy. This enabled interested participants on the electric market to use this cross-border capacity, in a transparent allocation procedure on market principles.



6. Organisational Structure



7. Corporate Management

Shareholders' Assembly

The Shareholders' Assembly is the ultimate authority of the Company. The competences of the Assembly are provided for by the Companies Act and By-Laws of the Company. The shareholders, through the Assembly, pass and approve the most important acts, property, election and status related decisions. X Ordinary Shareholders' Assembly of CGES was held in 2019. In addition to decision adopting the 2018 Operating Statement, 2018 Financial Statements with Auditor's Report and Decision on selection of an auditor for 2019, members of the Board of Directors were elected at the Assembly.

Board of Directors

The Board of Directors is authorised to manage and govern the Company, monitor on-going business activities and play a central role in corporate management system. The authorities of the Board are set by the By-Laws of the Company.

The Board of Directors governs and manages the Company and monitors current business activities, convenes the Annual and Extraordinary Shareholders' Assembly, prepares decision proposals for Shareholders' Assembly and executes its decisions, adopts the Company's business plan, annual budget and development investment plans etc.

The CGES Board of Directors consists of seven members who were elected at X Ordinary Shareholders' Assembly held on 25 June 2019.

Company Secretary

The competences and responsibilities of the Company Secretary are provided for by the Companies Act, By-Laws of the Company and a special contract concluded with the Board of Directors of the Company.

The Company Secretary is responsible for her work to the Board of Directors and is obliged to implement its decisions.

Executive Director

Pursuant to the By-Laws of CGES, the Executive Director manages the Company and organises ongoing business activities of the Company, represents the Company, takes care and is responsible for the legality of the Company's work.

The competences and responsibilities of the Executive Director are provided for by the Companies Act and the Company's By-Laws.

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

Management team

The Board of Directors determines the management structure and appoints management member at the proposal of the Executive Director. During 2019, the positions of directors of the Company's organizational units were held by: Milica Deretić, Director of National Dispatch Centre, Jagoš Pupović, Director of Elektroprenos, Jovan Gošović, Director of Sector for Financial and Economic Affairs, Dr Branko Stojković, Assistant Executive Director for Development, MSc Ljiljana Vučinić, Assistant Executive Director for Investments, Biserka Dragičević, 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 2019, 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 Depository Agency as of 31 December 2019, is 7,239.

The ownership structure of CGES as of 31 December 2019 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 %, whose shares in the excerpt from the register of the Central Depository Agency are recorded to NM – cumulative custody account 7. Other custody accounts, funds and other legal persons hold 4.9733% of shares, while natural persons hold 7.5491% of shares.



Shareholders	Share capital (EUR)	Number of shares	Nominal value (EUR)	Participation in %
State	85.309.556	80.397.282	1,0611	55,0000
Terna - Rete Elettrica Nazionale SpA, Italija	34.261.768	32.288.915	1,0611	22,0889
Elektromreža Srbije - EMS	15.532.737	14.638.335	1,0611	10,0141
Robotti Global Fund	1.310.459	1.235.000	1,0611	0,8449
Open-end investment fund "MONETA"	37.803	35.626	1,0611	0,0244
Open-end investment fund "TREND"	61.705	58.152	1,0611	0,0398
Open-end investment fund "HLT"	170.574	160.752	1,0611	0,1100
Montenegro event agency doo	348.041	328.000	1,0611	0,2244
Natural persons	11.475.032	10.814.280	1,0611	7,3981
Legal persons and custody accounts	6.600.608	6.220.534	1,0611	4, 2555
Total	155.108.283	146.176.876	1,0611	100,00

LEGAL PERSON IN WHICH CGES HAS AN OWNERSHIP SHARE

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

Legal person in which CGES has an ownership share	Capital contribution (EUR)	Share in capital (%)
Centar za koordinaciju sigurnosti doo – Beograd (Security Coordination Centre)	34.765,00	33,33
Berza električne energije (Power Exchange)	149.995,00	33,33
Elektroenergetski koordinacioni centar EKC – Beograd (Electricity Coordinating Center)	49.548,31	25,00
SEECAO	40.000,00	12,50
Total	274.308,31	



8. 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.

As of 31 December 2019, the total number of employees in CGES was 305. That number includes 296 employees with full-term employment contracts, and nine 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 nine persons carried out the vocational training within our Company in 2019.

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 2019

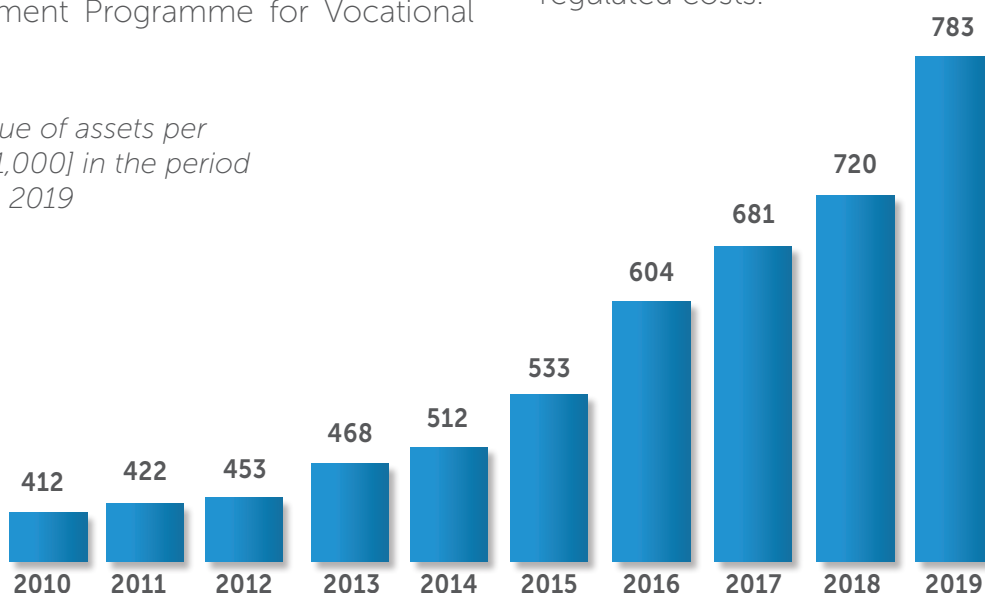
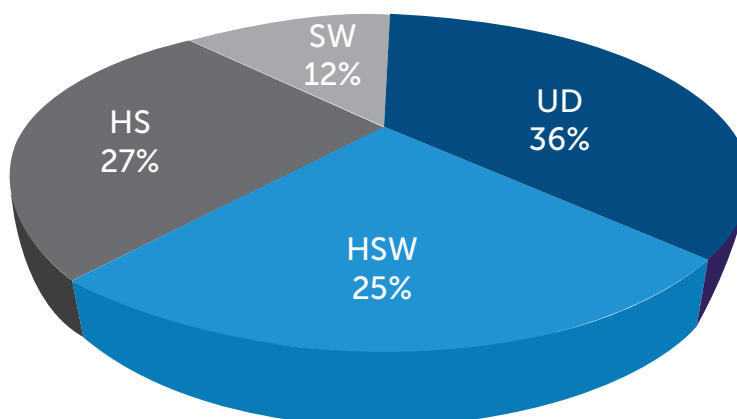


Figure 2 - Qualification structure of employees



9. Regulatory Framework

In order to continuously improve the normative and regulatory framework, in 2019, CGES continued with activities arising from the obligation to harmonise the national legislation with the European *acquis communautaire*, and particularly in the part of implementation of the Third Energy Package of the European Union, which envisages further strengthening of the energy market, providing higher protection to consumers and stimulating the development of competitiveness.

With the participation of CGES through a public hearing process, a **new Methodology for setting regulatory allowed revenue and prices** for the use of electricity transmission system was adopted by the Energy Regulatory Agency in June 2019. In addition, in September 2019, the Energy Regulatory Agency adopted also **new Rules for corrections of prices and charges** that govern the conditions, method and procedure for setting the amount of corrections of prices for the use of transmission system based on deviations of realised energy and financial values compared to the set ones.

The year 2019 was certainly marked by the **procedure for setting regulatory allowed revenues and prices for the period 1 January 2020-31 December 2022**, which, in accordance with the Energy Law, was initiated by a CGES' request of 2 September 2019.

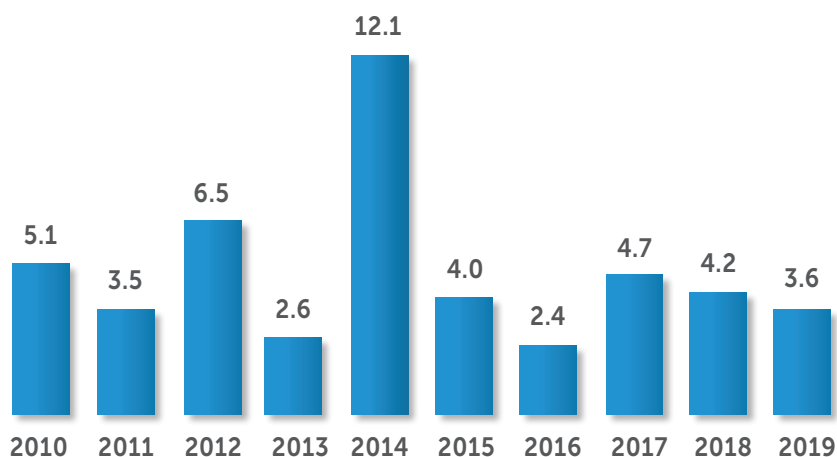
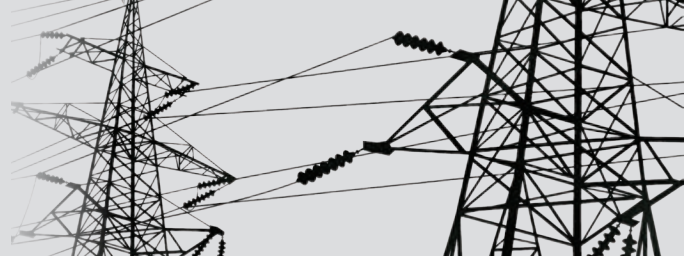
On 2 December 2019, the Board of the Energy Regulatory Agency adopted a Decision

setting regulatory allowed revenue and prices for the period 2020-2022, which set the regulatory allowed revenue (RAR) for 2020 in the amount of €27,591,885, for 2021 in the amount of 29,114,806 € and for 2022 in the amount of €30,728,939, i.e., in percentage about 90.4% of the requested revenue for the next regulatory period. Such a result represents a stable basis for ensuring the economic and financial sustainability of the Company for the following years.

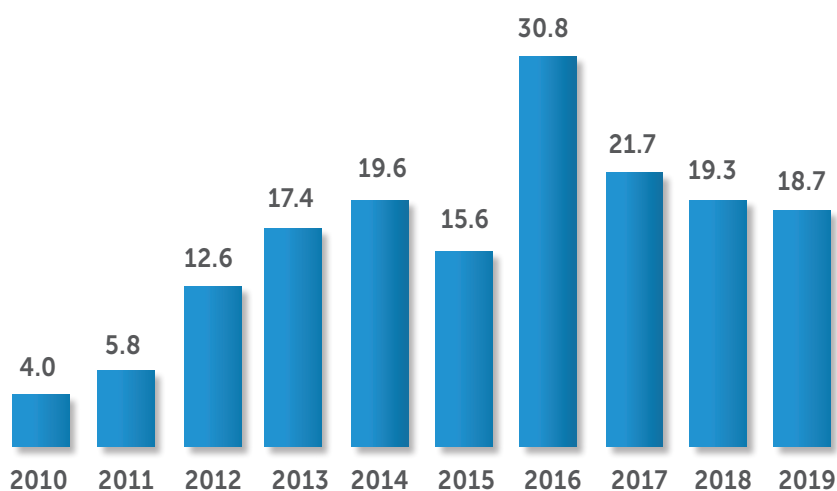
Regarding the development of the electricity transmission system in Montenegro, in July 2019, CGES determined **the 2020-2029 Transmission System Development Plan**, which the Energy Regulatory Agency approved in October 2019. With the Development Plan, the 2020-2020 Investment Plan was determined that includes investments in the electric power network, i.e. the reconstruction and rehabilitation of existing and the construction of new facilities (overhead lines and substations), as well as investments in the telecommunication system, monitoring and control of the electric power system of Montenegro.

Normative activities for the coordinated allocation of cross-border capacities on market principles were aimed at preparing the Allocation Rules for Forward Capacity Allocation on Italy- Montenegro Border and the Rules for Daily Capacity Allocation on Italy-Montenegro Border, as well as the Auction Rules for the allocation of transmission capacities at the border of control areas of Elektromreža Srbije AD Beograd (EMS) and CGES, which the Energy Regulatory Agency approved in November 2019.

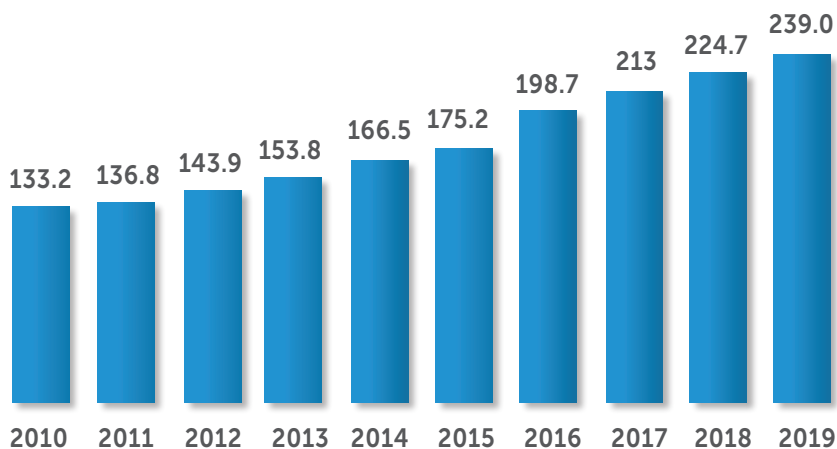




Tenth year in a row from the spin-off into a separate legal person, CGES achieved a positive business result by showing a net profit in the amount of €3.6 mln, despite the complex business environment.



During 2019, €18.7 mln was spent for investments implementation.



Also in 2019, CGES continued developing the system following the permanent consumer demands for quality of electricity, as reflected in the achieved value of CGES assets of €239.0 mln

10. Financial Statements

Profit & Loss

The 2019 financial statement show a net profit of €3.6 mln.

Revenues amount to €40.6 mln and they mainly referred to transmission network use (€21.4 mln), transmission losses (€6.3 mln) and revenues from balancing and system services (€6.6 mln).

Operating expenses were realised in the amount of €27.7 mln and mainly refer to transmission losses (€8.1 mln), costs of balancing and system services (€7.8 mln), personnel costs (€6.3 mln) and other costs including third party costs (€5.6 mln).

EBITDA (earnings before interest, taxes and depreciation) amount to €12.9 mln with a margin of 32%.

PROFIT & LOSS			
€ mln	12M 2019	12M 2018	2019 VS 2018
Transmission network use revenues	21,4	20,0	1,4
Transmission losses	6,3	5,6	0,7
Cross-border capacity allocation revenues	3,7	2,8	0,9
Balancing and system services revenues	6,6	5,0	1,6
Other revenues	2,6	2,7	(0,1)
.....			
Total revenues	40,6	36,1	4,5
Personnel	6,3	6,1	0,1
Material	0,3	0,2	0,1
Third party services	2,4	1,6	0,5
Balancing and system services cost	7,8	5,7	2,0
Other	3,2	3,6	(0,4)
Transmission losses	8,1	6,5	1,6
Total costs	27,7	23,9	3,8
EBITDA	12,9	12,3	0,6
Margin	32%	34%	-2%
D&A	8,2	7,5	0,7
EBIT	4,7	4,7	(0,1)
Margin	12%	13%	-2%
Net financial expenses	0,6	0,1	0,5
Financial revenues	0,3	0,5	(0,2)
Financial expenses EBRD Lastva-Pljevlja	0,1	0,1	(0,0)
Financial expenses KfW Lastva-Pljevlja	0,3	0,0	0,3
Financial expenses KfW - Luštica	0,0	-	0,0
Financial expenses other debt	0,4	0,5	(0,0)
EBT	4,1	4,6	(0,5)
Taxes	0,4	0,4	0,0
Net profit	3,6	4,2	(0,6)

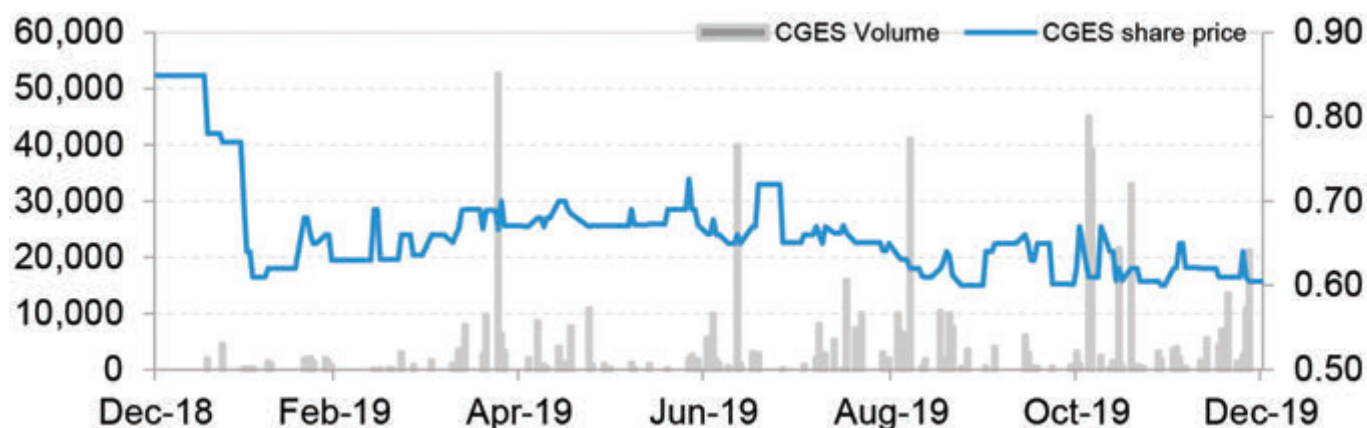
BALANCE SHEET

€ mln	12M 2019	12M 2018	2019 VS 2018
Assets	239,0	224,7	14,3
Working capital	(16,0)	(14,4)	(1,6)
Funds	3,4	3,4	0,0
Net invested capital			
	219,5	206,9	12,6
Shareholders equity	174,9	171,6	3,3
Paid in capital	155,1	155,1	-
Reserve	0,1 (0,2)	0,2
Carried forward results	20,3	16,6	3,6
Net profit from previous period	16,6	28,7	(12,1)
Current net profit	3,6	4,2	(0,6)
Dividends	-	(16,2)	16,2
Purchased own shares	(0,6)	-	(0,6)
Net debt	44,6	35,3	9,3
Cash	17,8	25,4	(7,6)
Long-term debt	62,4	60,7	1,7
EBRD Lastva-Pljevlja	40,8	35,1	5,7
KfW Lastva-Pljevlja	12,7	14,0	(1,3)
KFW (Luštica)	-	-	-
Other debt	8,9	11,5	(2,6)
Short-term debt	-	-	-
Dividends	-	-	-
Total liabilities	219,5	206,9	12,6

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 a decrease in value from €0.85 per share at the beginning of the year to €0.61 per share as of 31 December 2019.



11. Transmission System Control

Reliable network 24/7 – our most important task

In order to ensure smooth system operation 24 hours a day, transmission system monitoring and control is performed from the National Dispatch Centre (NDC) by using state-of-the-art software tools. Monitoring of parameters of the electric power system is implemented through the NDC's SCADA system, local systems for control and monitoring in CGES' facilities and transmission system users, as well as with the help of information obtained by other means of communication with transmission system facilities, user facilities and operators of neighbouring systems.

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.

With the current increase in the share of generation capacities from renewable energy sources, maintaining balance between the users' needs and generation, as well as ensuring a highly reliable electric power network, becomes a particularly difficult task.

As a transmission system operator, our task is to ensure the maximum availability of our network. For this purpose, to reduce operational risks, we constantly enhance the network infrastructure and optimise work processes.

Outage Planning Coordination (OPC) and Security Analyses Coordination

are of great importance for transmission system control. OPC includes the development of an annual outage plan and its updating through the development of monthly and weekly plans, in accordance with the procedures and rules of ENTSO-e codes. The procedures provide a timely exchange of information on planned outages and the harmonisation of terms between transmission system operators.

In addition to coordinated processes, CGES analyses power flows, voltage conditions and system operation security in specific regimes on a daily basis in order to identify possible critical situations and design preventive and corrective measures to overcome these situations.

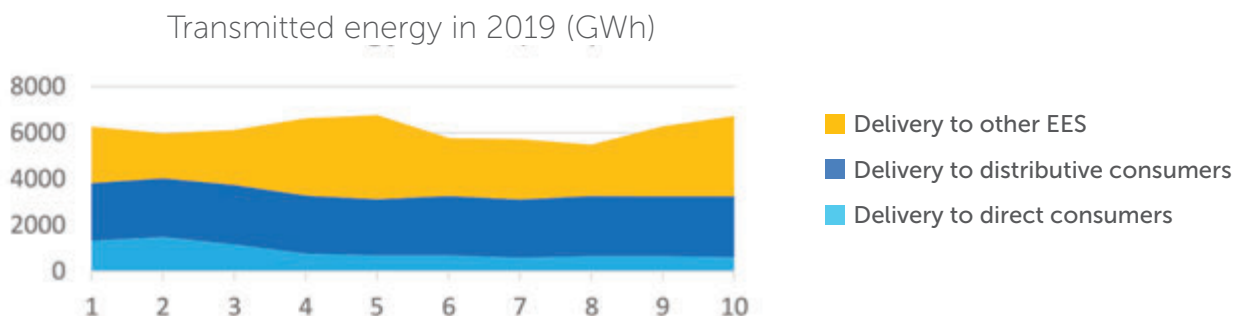


Electric power indicators

Transmitted electricity

In 2019, CGES' network transmitted a total of **6,733.5 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.

In 2019, we record a remarkable growth in the total energy transmitted provided by CGES. Namely, compared to 2017 and 2018, a growth of 22.65% and 7.19% respectively was realised. With the commissioning of the HVDC cable towards Italy, a significant increase energy transmission, and thus an increasing transmission system use, is expected.



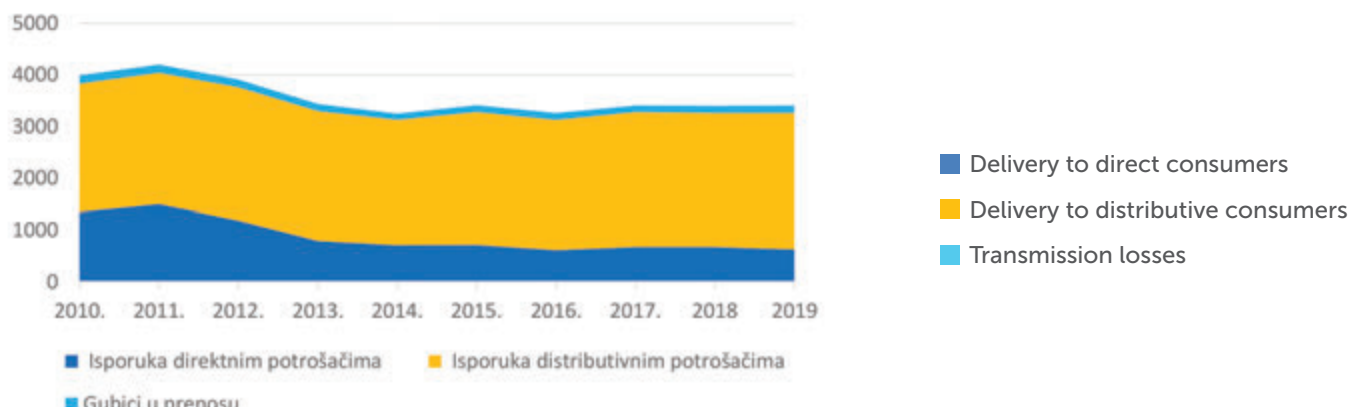
Electricity consumption

In 2019, the total electricity consumption in Montenegro amounted to 3,405.79 GWh, which is almost equal to the value from 2018.

Consumption			
	2019	2018	Difference
Supply to distribution consumers	2.636,055	2.583,532	2,0%
Supply to direct consumers	623,274	676,738	-7,9%
Transmission losses	146,461	142,177	3,0%
Total:	3.405,79	3,402,447	0,1%



Total electricity consumption in the period 2010-2019 (GWh)



Although the total quantity of losses was increased by 3%, thanks to higher use of network of the highest voltage level, the transmission losses rate compared to the total transmitted energy was reduced by 4% compared to the previous year.

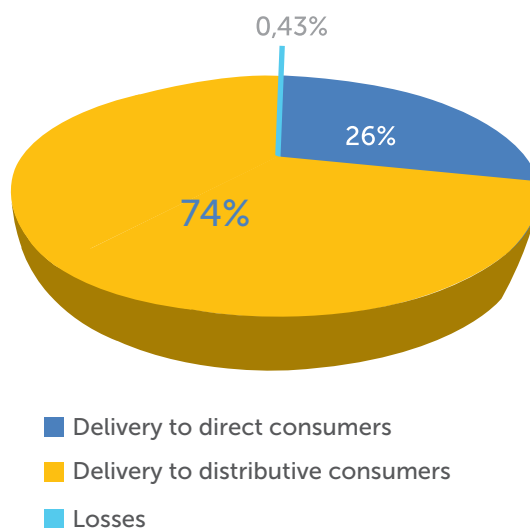
From the diagram it can be concluded that almost 4/5 of the total electricity consumption refers to customers at the distribution level.

The maximum load of the Montenegrin transmission network was recorded on 21 December 2019 when exports amounted to 21,917.01 MWh, with a transit of 18,925.53 MWh. On that day, the maximum value of transit was realised in the value of as much as 1,014 MW at 17h.

Below is an overview of the maximum/minimum system load as well as the realised maximum and minimum consumption on a daily basis in 2019.

In 2019, peak consumption in Montenegro amounted to 605 MW, compared to 599 MW in 2018.

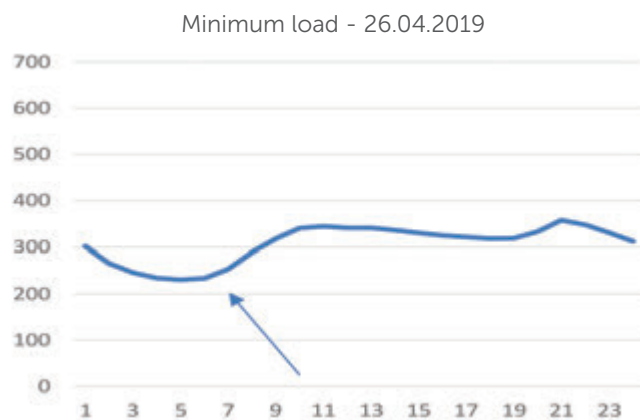
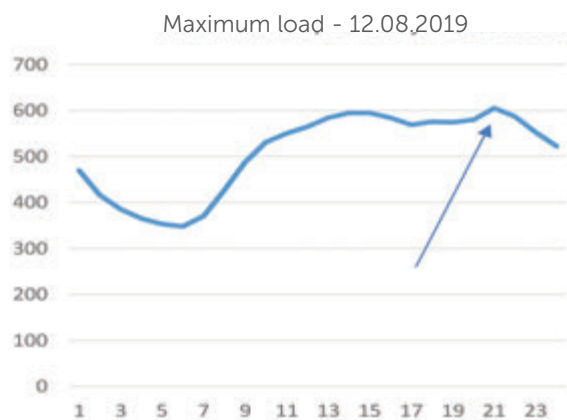
Share by type of consumption 2019



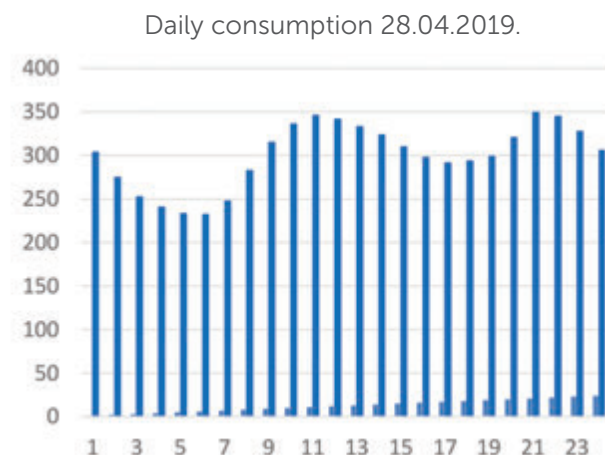
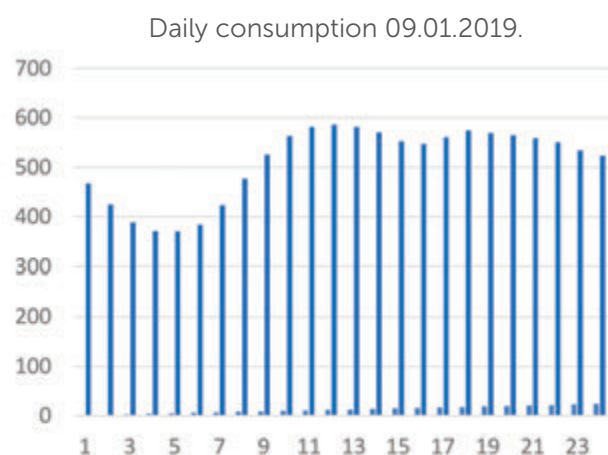
Maximum power			Maximum daily consumption	
MW	Hour	Day	MWh	Day
605	21	12.08.2019,	12250,25	09.01.2019
Minimum power			Minimum daily consumption	
MW	Hour	Day	MWh	Day
230	5	26.04.2019,	7191,93	28.04.2019

That peak was recorded on 12 August 2019 at 21h.

The minimum consumption of 230 MW was recorded on 26 April 2019 at 5h.

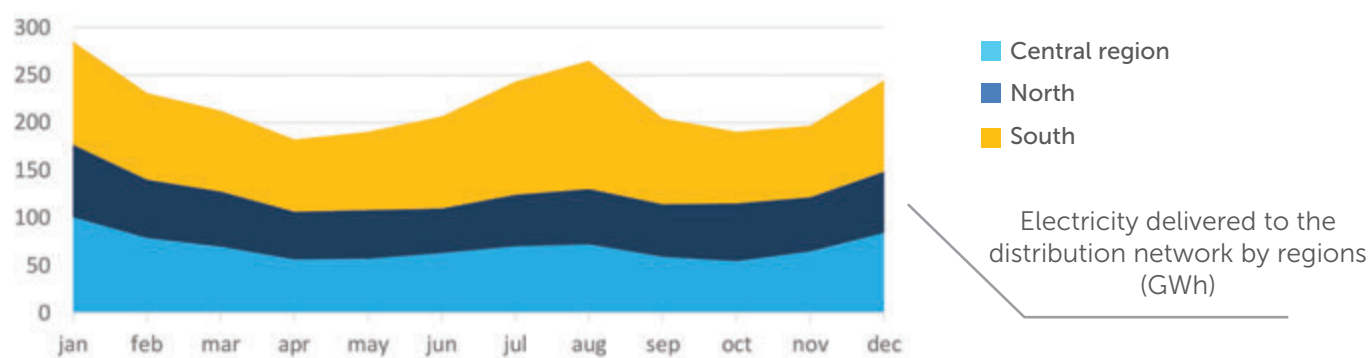


The highest daily consumption was realised on 9 January, while the lowest on 28 April 2019.



Electricity delivered to the distribution network

Due to high consumption during the summer tourist season, connection points on the coast record maximum consumption in this period. The fact that the consumption trend by months of coastal municipalities is often in the opposite direction compared to the direction of consumption in the central and northern part, makes the consumption diagram at the level of Montenegro more balanced. The following diagram shows the electricity delivered to the distribution network in 2019 by regions.



Electricity generation

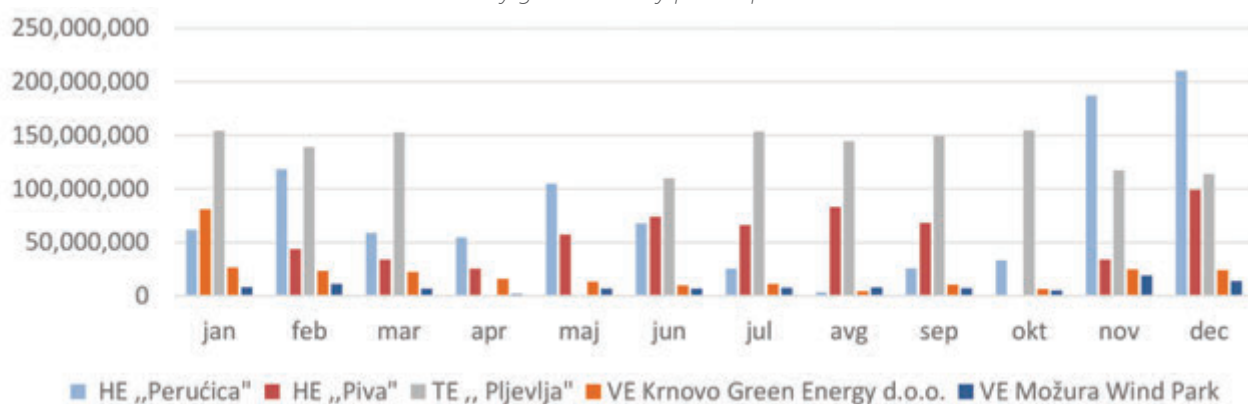
In 2019, 3.301.06 GWh of electricity was injected into the transmission system from generation facilities, of which 1.617.06 GWh was generated in hydropower plants, 1.390.11 GWh in thermal power plants, and 294.31 GWh in wind power plants.

Electricity generation

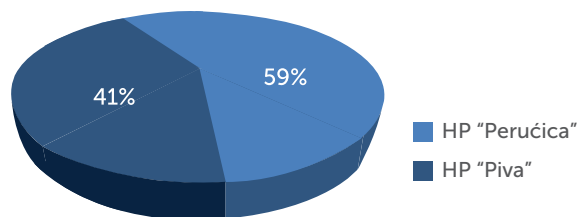
POWER PLANTS	2019	2018	difference
HPP „Perućica“	951,97	1.042,256	-9%
HPP „Piva“	665,093	993,902	-33%
TPP „Pljevlja“	1.390,107	1.443,763	-4%
WPP Krnovo Green Energy d.o.o.	193,016	161,626	19%
WPP Možura Wind Park	101,294	0,64	-
Total	3.301,48	3.642,187	-9%

Electricity generation per generation facility connected to the transmission system of Montenegro by month in 2019 is shown in the diagram below.

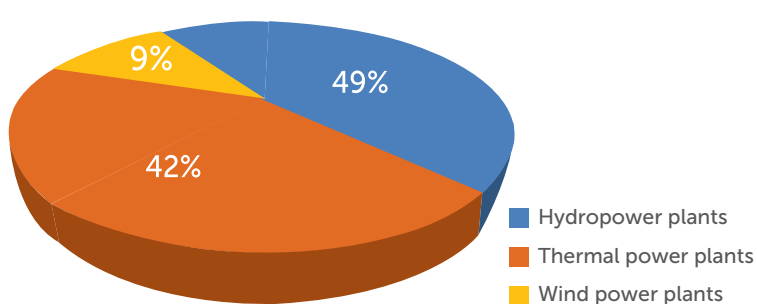
Electricity generation by power plant in 2019.



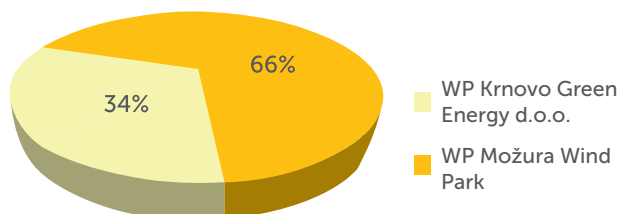
Hydropower plants



Share by generation type



Wind power plants



In Montenegro, the generation of renewable energy increased by **81%** in absolute terms compared to the 2018 data. This means that wind power plants are playing an increasing role in meeting the needs of consumers, which, due to variability in generation requires transmission system operators to increase the required control power and balancing energy.

Cross border transmission capacities in 2019

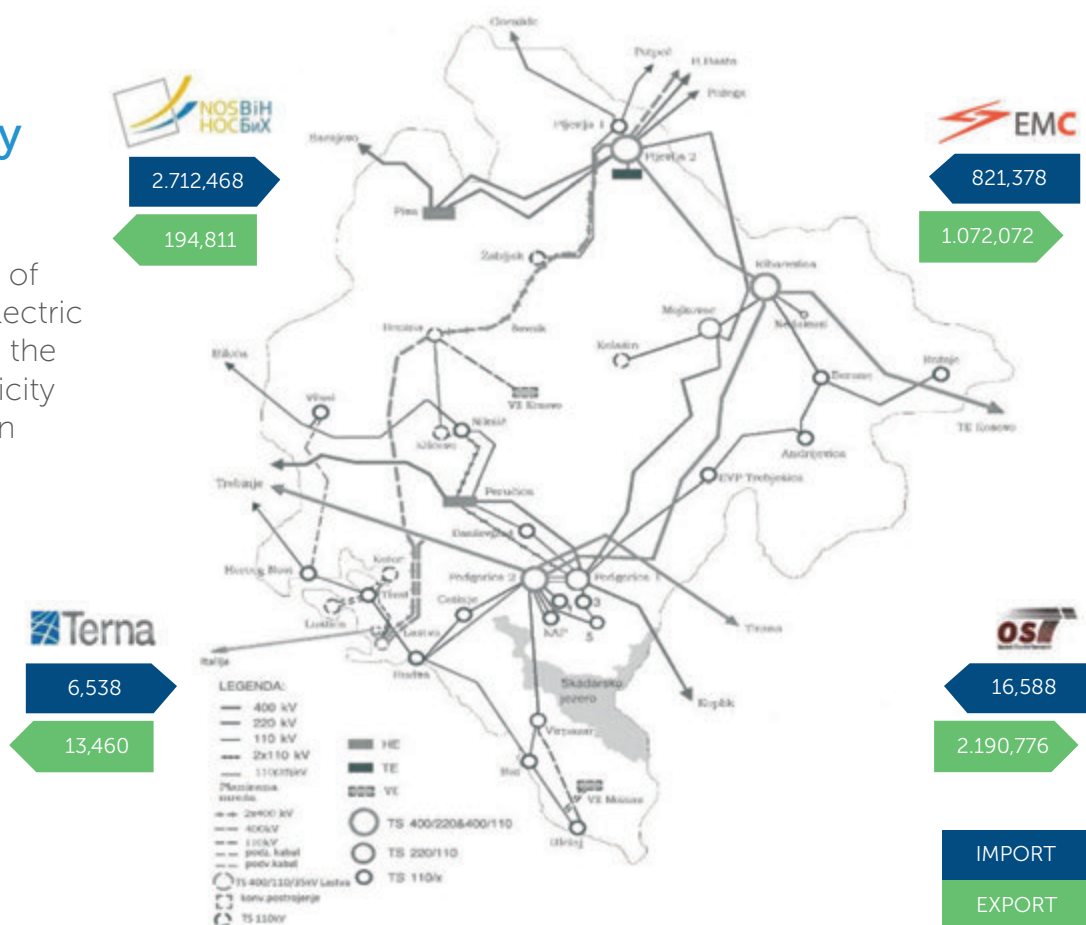
After physically connecting to the Italian transmission system via HVDC submarine cable, and in order to put it into commercial operation, in coordination with colleagues from the Italian transmission system operator Terna, CGES prepared a set of rules defining the manner and procedures of allocating available transmission capacities on the new Montenegro- Italy interconnection, which was established at the end of the year. **Rules for Forward Capacity Allocation on Italy-Montenegro Border** and **Rules for Daily Capacity Allocation on Italy- Montenegro Border** were approved in November 2019 by the Energy Regulatory Agency. Also, Energy Regulatory Agency approved Auction Rules

for allocation of transmission capacities on Elektromreža Srbije AD Belgrade (EMS) and CGES control areas borders. Pursuant to the Rules, a contract was concluded between two transmission system operators.

By implementing these rules, CGES has further improved cross-border capacity allocation process and created a prerequisite for a significant increase in the number of participants in the electricity market from EU countries. From the point of view of electricity market participants, joint auctions are a more favourable market option as there is a possibility of reimbursement due to non-utilization of capacity and a single (marginal) price at which market participants pay capacity reservations for individual auctions, thus improving the market environment. From a technical point of view, the above innovations have proved to be justified in terms of optimal utilization of cross-border capacities.

Electricity exchange by borders

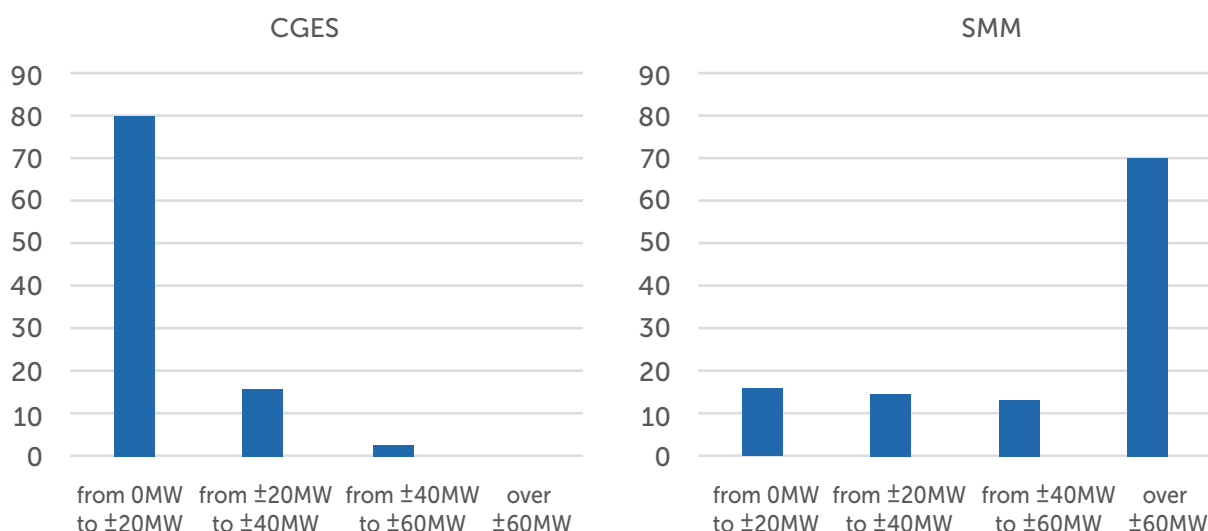
Below is a diagram of the Montenegrin electric power system with the exchange of electricity by borders (GWh) in 2019.



System control

CGES is obliged to control the power of exchange with the neighbouring power systems, limiting unexpected unbalances in the range -20 MW to +20 MW.

The diagrams below show the control error of CGES as a member of the SMM control block, where a very good regulation of the control area Montenegro is shown (80.26%).



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.

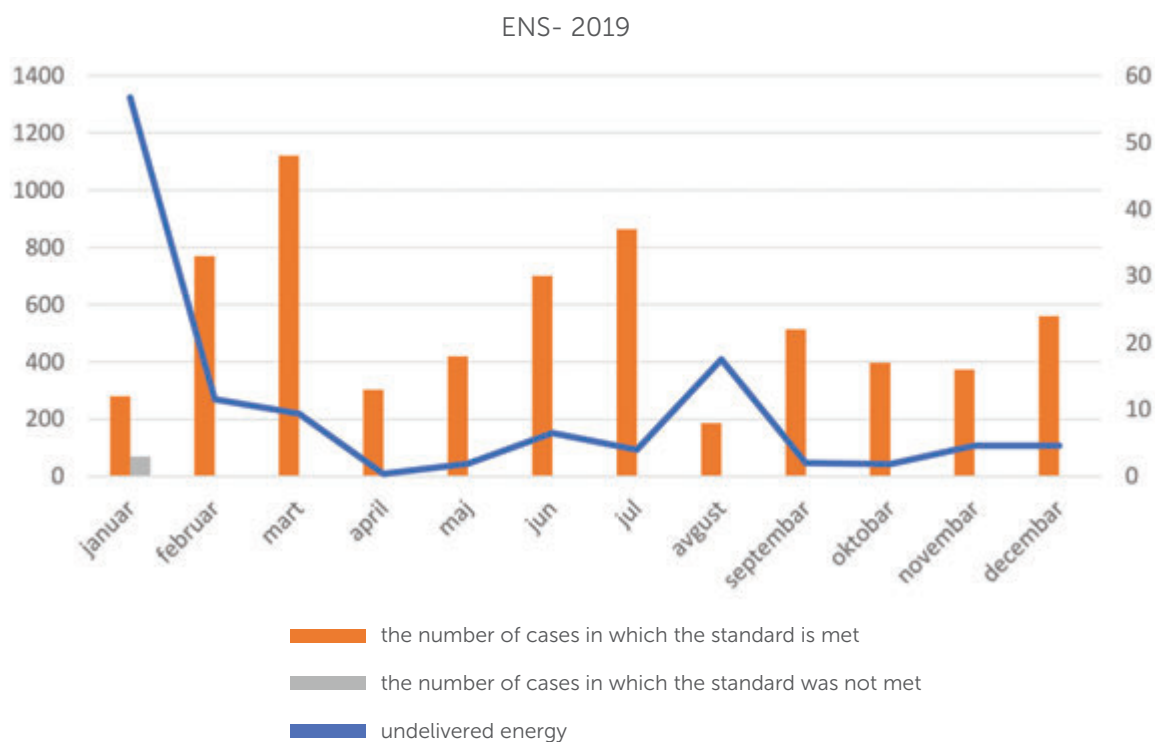
Basic quality indicators relating to transmission system:

- **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
- **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 volume of energy not supplied due to planned interruptions (outages), according to Rules on the Minimum Quality Requirements of Electricity Delivery and Supply, was 2.826,917 MWh.

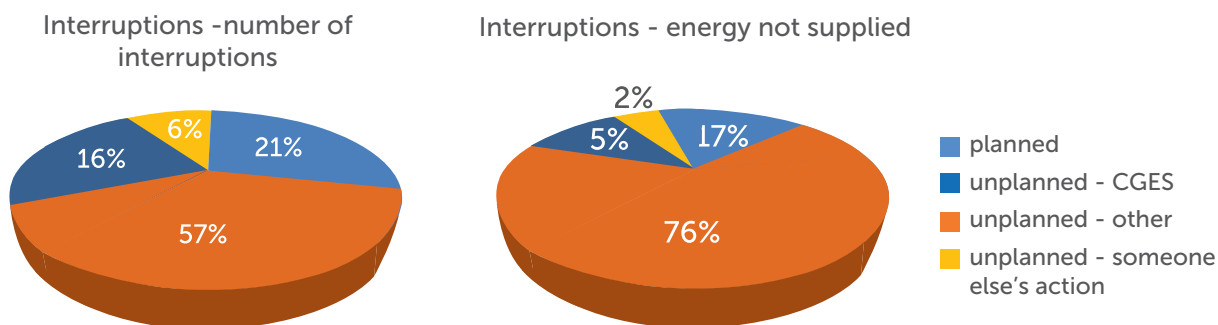
Total Interruption Time and Energy Not Supplied during 2019

	planned	unplanned
Total interruption time from the beginning of the year (min)	7,080	21.299
Total Energy Not Supplied -ENS from the beginning of the year (MWh) - ENS	0	2.826,917



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 1% of cases (3 out of 281) this standard is not met.

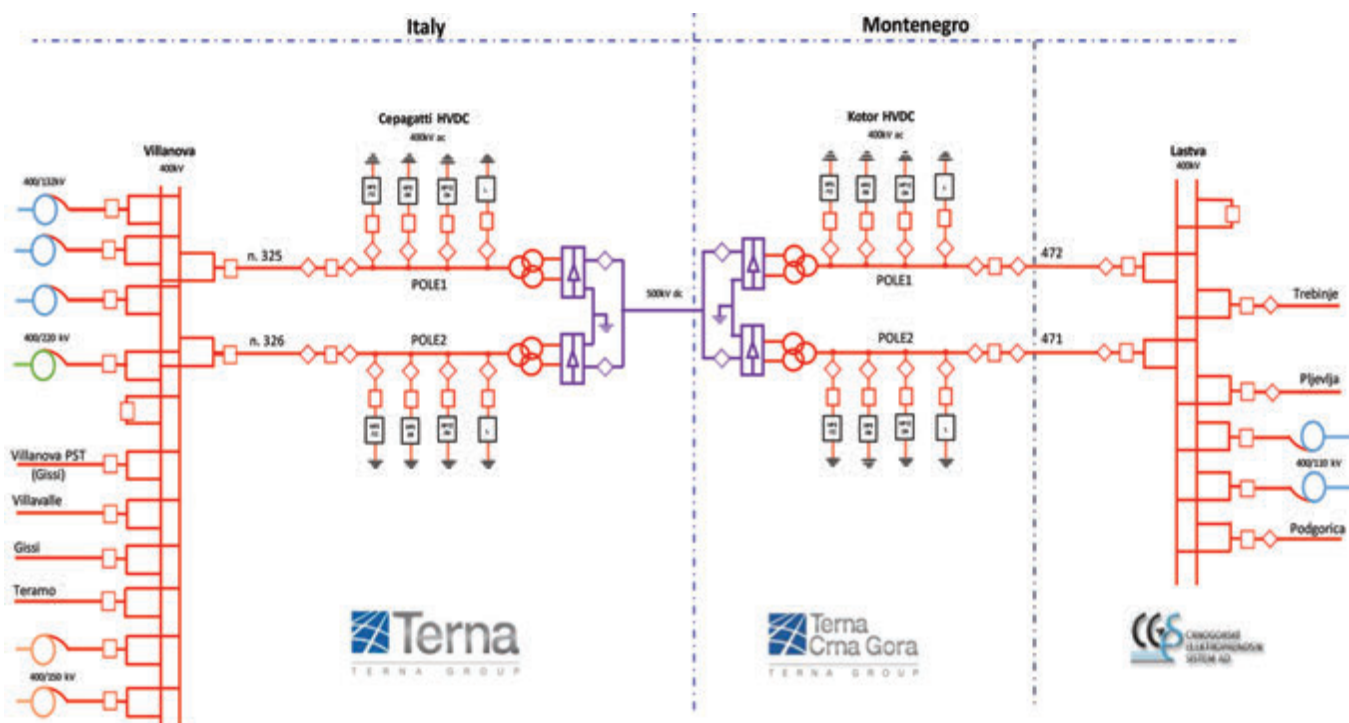
Basic quality indicators for transmission in 2019 were AIT 7,59h and ENS 2.826,917 MWh



Out of 223 unplanned interruptions, 72.1 % was caused by force majeure i.e. by extreme meteorological conditions.

2019 Control Novelties

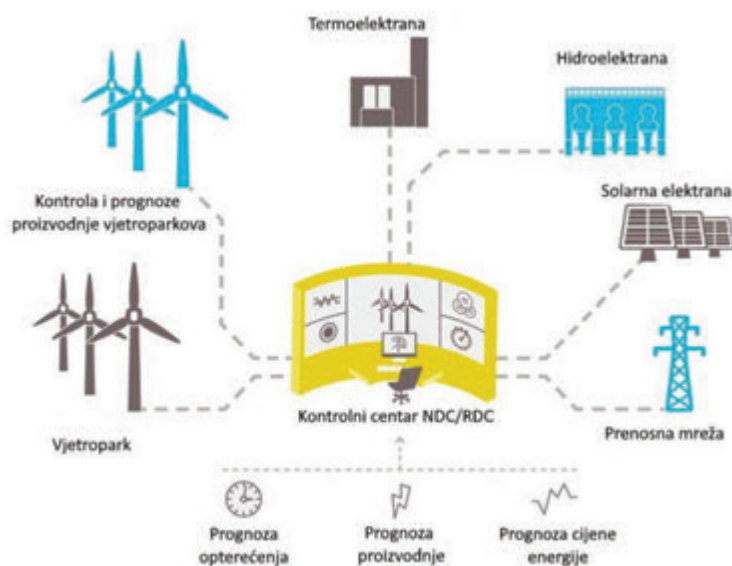
In 2019, the most significant activities in the field of the system operational control and planning are related to the commissioning of the submarine HVDC cable between Montenegro and Italy - MONITA. The link was implemented with two poles in the converter plants on each side, i.e. the Kotor converter plant and the Cepagatti converter plant, and, in the first phase, via one pole of submarine cable of 600 MW transmission power. A procedure in case of failure of the HVDC cable, with the consent of ENTSO-E and acceptable to all adjacent TSOs, was agreed with Terna, thus closing the so-called **Notification Process**.



CGES has also developed a new Defense Plan, harmonized with the Emergency & Restoration Code ENTSO-E, which elaborates measures for handling critical/emergency situations.

Modern SCADA system for successful electricity transmission in the interest of the Company

SCADA (Supervisory Control and Data Acquisition / Energy Management System) is a basic tool that allows us to monitor power system operating parameters. In order to enhance and improve the supervisory and control capacities and performance of the existing NDC, our company has implemented a new SCADA / EMS system with the newly formed Redundant Dispatch Center (RDC) fully in line with ENTSO-e standards.



The implemented SCADA system is a contemporary solution in the field of monitoring and control of the power system. By implementing this system, full observability of our power system has been achieved, as well as parts of the adjacent systems changes of which significantly affect our system. One of the most significant improvements brought by the new system is a complete hardware and software redundancy, which was used to establish an RDC with full functionality at another physical location.

Within the implementation of this extremely complex project the preparation of 26 CGES facilities commissioning of 15 local SCADA systems in substations.



Single control system for everything

Engineers and operators in dispatching centres now have advanced visualization systems available, which contributes to a more efficient and high-quality response to day-to-day operations. **The new system also brings with it the functionality of a dispatcher training simulator, which is a significant step forward in the operator training process.**



The SCADA division, through the e-terramodel and e-terrasysbuild development servers, has modeling capabilities, i.e. system upgrades with visualization of all structural changes in the system. The new SCADA system enables administrators to control access to the system, maintain it, and perform changes to all elements and modules of the system, while ensuring its smooth and safe operation.

OPTICAL FIBRES AT THE HEART OF SMART GRIDS

The efficient functioning of the power system and the transmission system operator (TSO) as a whole is conditioned by the existence of a telecommunication system for the transmission of technical and business data, as one of the infrastructure systems.

The development of the optical network is in line with the adjacent TSOs transmission network developments.





CGES owns about 850 km of optical infrastructure based on fibre optic embedded in a ground wire (OPGW- Optical Ground Wire).

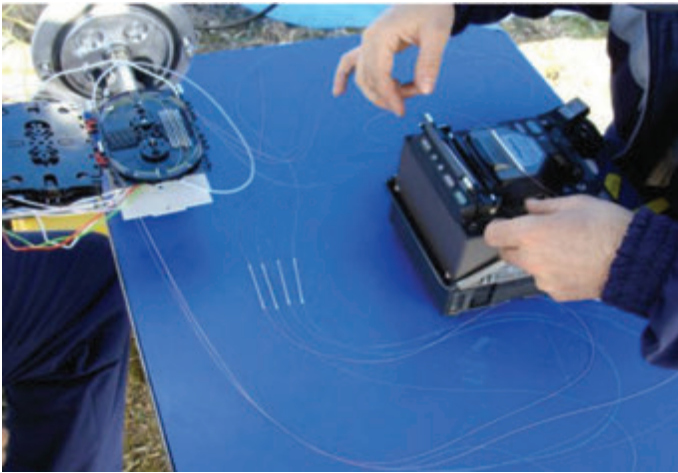
By this infrastructure, CGES is also connected to adjacent TSOs, and through them to all TSOs in ENTSOs and exchanges data in real time, using the Electronic Highway network (private computer network).

The transmission network with its conceptual settings and capacities, on one hand, meets the existing needs in terms of information transfer 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 licensed provider of fibre optic rental services and half of the total fibre is available for commercial services without compromising its current and future planned needs for its own fibre infrastructure.

In order to facilitate competitiveness, in mid-2019, a new price list was adopted for the lease of optical fibres and for the joint use of electronic communications infrastructure,

Additionally, the company's plan is to replace a ground cable for each new and each reconstructed transmission line with an OPGW cable as well as to lay underground optical cables during the construction of high-voltage cable lines. These investments expand our optical network and provide redundancy.



Considering that the entire communication, monitoring and control of the power system goes through the telecommunications system, it is extremely important that it is characterized by a high operational availability and being in line with modern technology.

At the proposal of the World Bank, an initiative was launched for sharing of "Balkan Digital Highway" Regional Infrastructure, involving three electricity transmission companies from the region - KOSTT, OST and MEPSO, which CGES with the approval of the Ministry of Economy, joined to. A feasibility study on the available optical infrastructure sharing should consider the possibility of the participation of energy undertakings in the sharing of rental infrastructure access on a commercial basis to interested operators and propose network design taking into account the results of the market analysis for each TSO separately.

Significant improvement in efficiency is expected with the implementation of the new ERP (Enterprise Resource Planning) and DMS (Document Management System), agreed delivery of which is in 2019.



Also, CGES has started the process of implementing a redundant Data Center (Disaster Recovery Center) to ensure Business Continuity during incident and disaster events.

12. Electricity transmission system facilities

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

CGES AD Podgorica owns 1411 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, (1260 MVA),
- 2 substations 220/x , (616 MVA), and
- 19 substations 110/x, (2035 MVA).

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

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



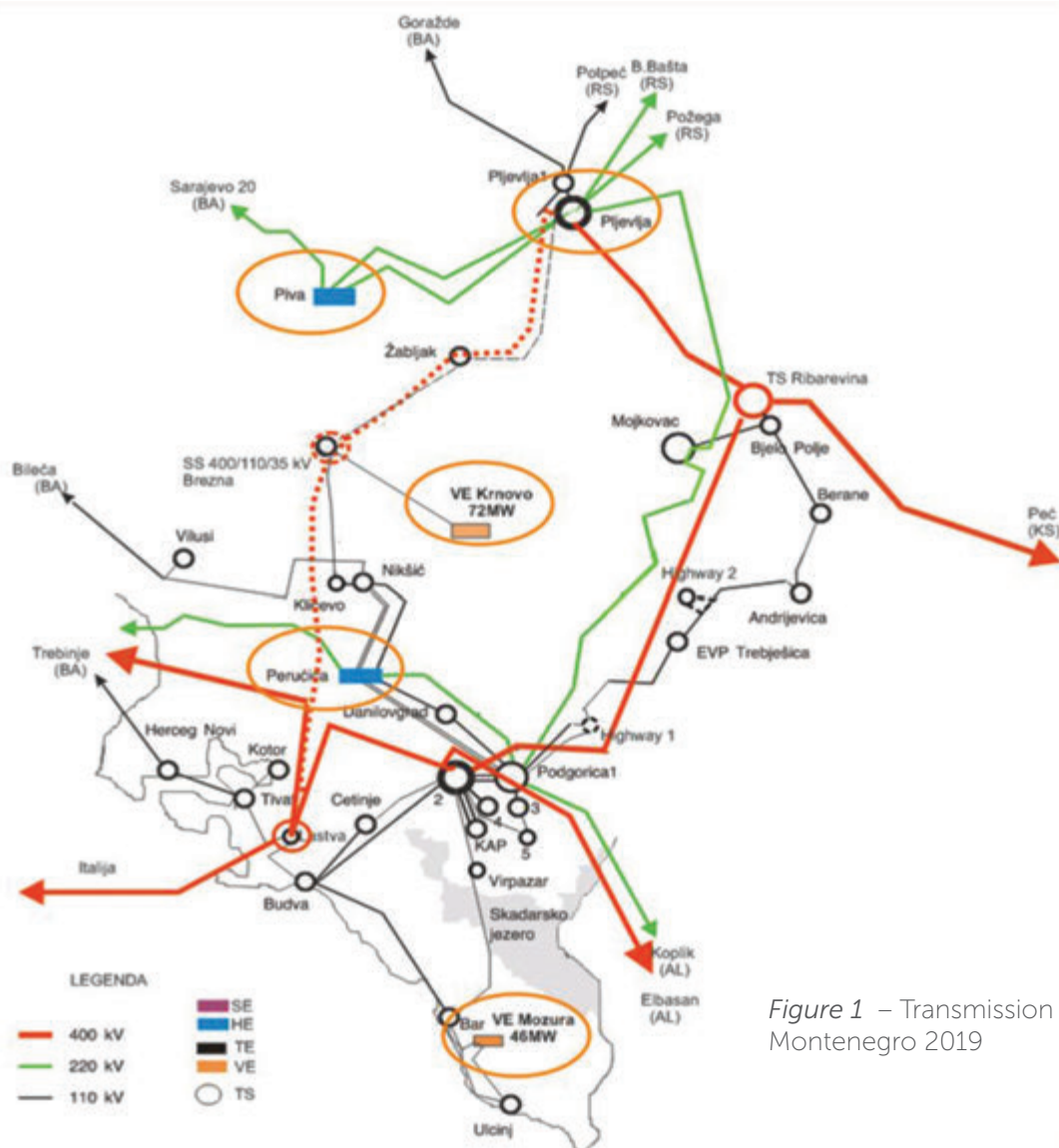
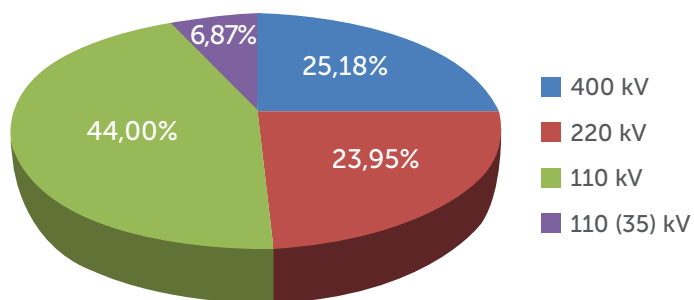
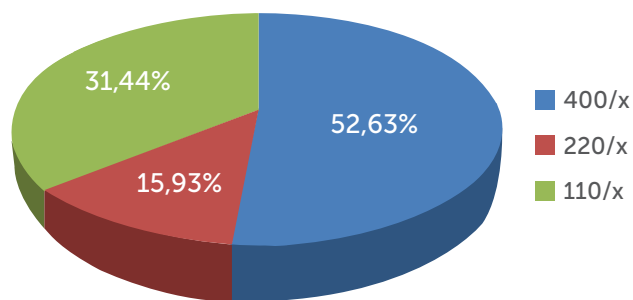


Figure 1 – Transmission network of Montenegro 2019

Electric power lines



Transformer installed power



Transmission system users

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

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

Operating, testing and maintenance

Care of power facilities includes regular monitoring and testing of equipment, regular inspections, examinations and overhauls as well as fast, efficient and quality rectification of defects and handling emergency situations, all in such a way as to ensure non-existence of voltage-free time of any power system user or to reduce it to the minimum.

During 2019, the planned activities related to monitoring and testing the condition of the equipment as well as performing regular inspections, examinations and overhauls were realized to the extent of about **98%**.

During 2019, 105 emergency remedial actions were performed.





Overview of the planned and implemented examinations/overhauls of substations in 2019

Voltage level	EXAMINATION planned/implemented	OVERHAUL planned/implemented
400 kV	0/0	0/0
220 kV	4/4	6/6
110 kV	14/14	14/14
35 kV	13/13	26/26
TOTAL	31/31	46/46
%	100%	100%

Overview of the planned and implemented overhead line examinations/overhauls in 2019

Voltage level	EXAMINATION planned/implemented	OVERHAUL planned/ implemented
400 kV	10/10	3/3
220 kV	16/16	5/5
2x110 kV	4/4	0/0
110 kV	62/62	8/8
110 (35) kV	8/8	1/1
TOTAL	100/100	17/17
%	100%	100%



Overview of the planned and performed testing in 2019

In addition to the planned overhauls, examinations and testing, equipment replacements in substations and on overhead lines were performed. During 2019, based on the plan and the results of inspections examinations and tests, the replacement of HV circuit breakers, disconnectors, instrument transformers, surge arresters as transmission line equipment was performed.



Out of the investments in existing facilities in 2019, it is important to point out a full reconstruction of the 2x110 kV overhead lines Podgorica - Perućica line II and III and the 110 kV overhead line Berane - Andrijevica, which included complete replacement of phase conductors, earth wire, insulators, joint and suspension equipment.



Photograph - emergency restoration tower

13. Occupational Safety and Health in 2019

One of the key goals of CGES is to ensure the realization of the main task - quality and safe development, maintenance and management of the transmission system with zero tolerance policy towards workplace injuries. In order to achieve this goal, CGES constantly implements activities that should provide conditions for the achieving of this goal and the fulfilment of all legally defined obligations and best practices related to occupational safety and health.

14. Environmental Protection Measures

For the implementing projects relating to the construction of transmission system facilities with potential environmental impact, pursuant to the legislation in the field of environmental impact assessment, the consent of the competent authority to the study on the impact assessment or the decision that an environmental impact assessment is not needed for a particular project is required.

In addition, periodical meterings are performed during the operation of facilities, thereby occasionally checking the levels of electromagnetic radiations. Meterings are performed solely by an independent accredited institution. This field is regulated by the Law on Protection from Electromagnetic Radiation and supporting secondary acts.

Waste management is one of the important activities that is conducted in order to protect the environment. Waste management in accordance with the principles of sustainable development, i.e. efficient use of 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 – 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.



15. Investments in 2019

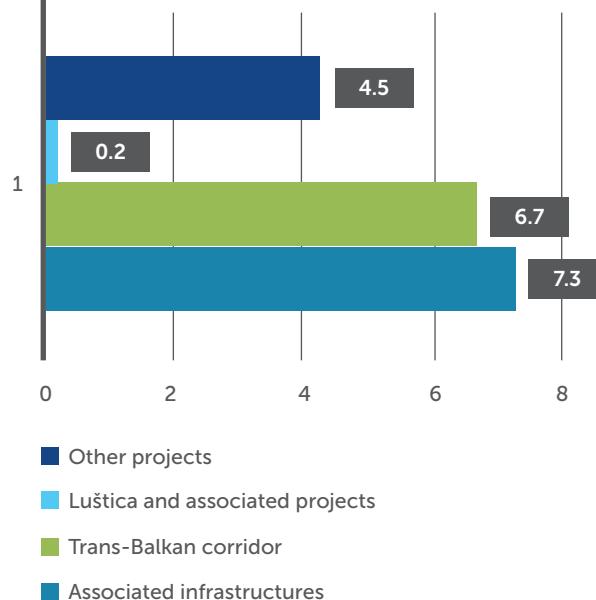
The 2019 Investment Plan envisaged activities on 60 projects. Investments were realized in the amount of €18.7 million. Investing in the investments that have been implemented or partially implemented are related to:

- Associated infrastructures that includes construction of SS 400/110/35 kV Lastva, OHL 400kV Lastva-Čevo and OHL 400kV Čevo-Pljevlja, amounting to € 7.3 mln.
- Trans-Balkan corridor that includes construction of SS 400/110/35 kV Brezna, construction of OHL 400kV Pljevlja2-Bajina Bašta, reconstruction of the protection system in the transmission network and replacement of HV equipment in the CGES substations, amounting to € 6.7 mln.
- New SCADA system, amounting to € 1.2 mln
- Luštica and associated projects that include construction of SS 110/35kV Luštica connection to 110 kV transmission network, reconstruction of SS 110/35kV Tivat, reconstruction of 110 kV OHL Lastva-Tivat and construction of OHL 110kV Lastva-Kotor, amounting to € 0.2 mln.
- Other projects representing investments in modernization and new projects, in the amount of € 4.5 mln.

Further Development

In 2020, CGES will continue to invest in the construction and modernization of the transmission network and facilities. The Investment Plan for 2020 envisages activities on 58 projects. Among the most significant investments, we should mention the continuation of investments in the associated infrastructure, the Trans-Balkan Corridor, the

Capital investments in mln €



construction of SS Luštica with associated projects as well as some of the very important projects:

- Reconstruction and extension of SS 110/35kV Pljevlja 1,
- Ensuring 110 kV bi-directional power supply for SS Podgorica 4,
- Construction of SS 110/35kV Žabljak,
- Procurement of new power transformers for SS Podgorica 2, SS "Nikšić" and SS "Kotor",
- Development of a system for remote access to process networks,
- Development of the main design for marking overhead lines,
- Purchase of instrument transformers.



16. International Cooperation

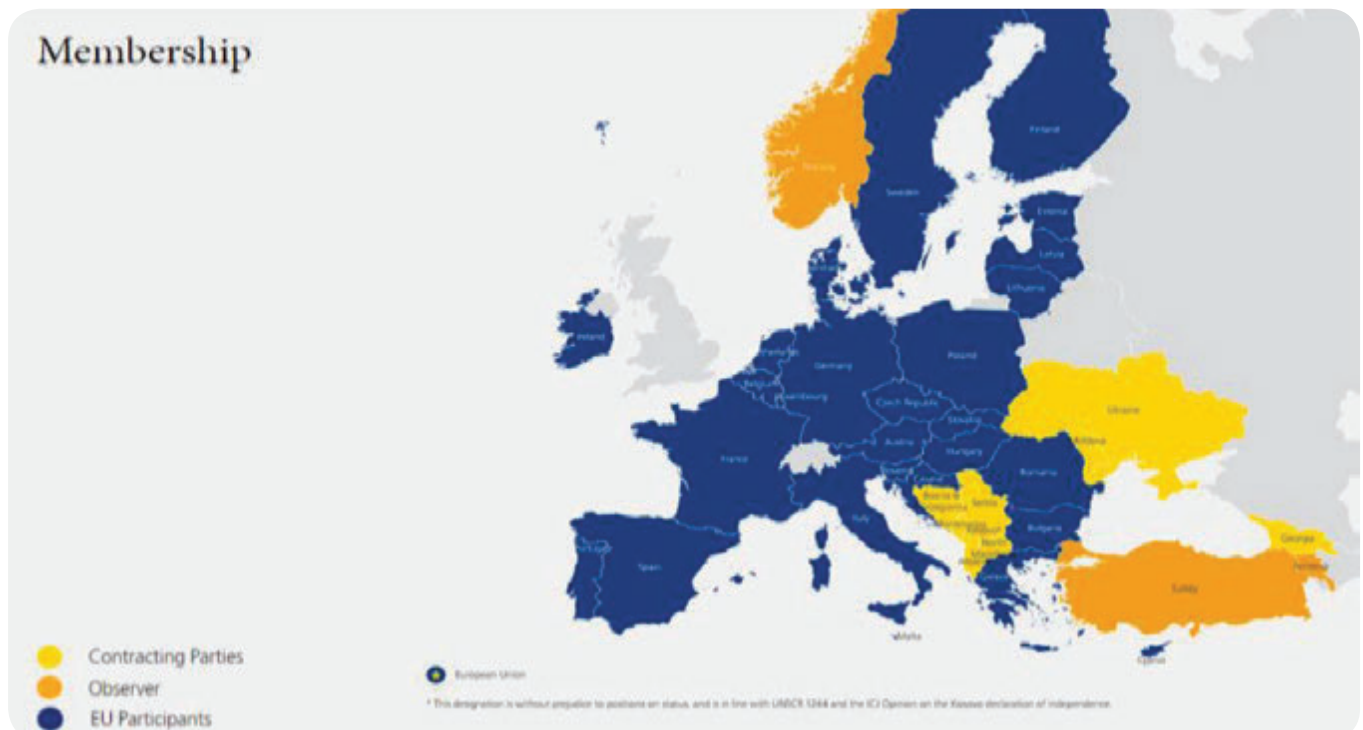
CGES AD Podgorica (CGES) maintains international cooperation within its competencies in order to strengthen the capacity and apply the best international practices in the field of energy, and further position CGES as a modern company that follows European trends. During 2019, CGES representatives actively participated in the work of all international bodies of which CGES is a member, in order to achieve the set goals, present the company in the best possible way and define strategic priorities when it comes to international cooperation, i.e. membership in international organizations and working bodies within them.

Figure no 3: Energy Community Member States nice
(Source: <https://www.energy-community.org/aboutus/whoweare.html>)

Membership in Energy Community

The Energy Community is an international organization gathering the member states of the European Union and its neighbours, in order to create an integrated pan-European electricity market. The organization was established by the Treaty establishing the Energy Community, signed in October 2005 in Athens, which entered into force in July 2006. The key goal of the Energy Community is to extend the rules and principles of the EU internal energy market to the countries of Southeast Europe, in the Black Sea region and beyond, on the basis of legally binding framework.

Montenegro is one of the nine contracting parties of the Energy Community, and CGES representatives participate in the work of the group for selection of priority PECO / PMI projects, in the Western Balkan Six Initiative, in the field of energy infrastructure development, connectivity and sustainability.



Membership in ENTSO-E

CGES AD Podgorica maintains continuous cooperation with the European transmission system operators within the European Network of Transmission System Operators for Electricity – ENTSO-E – 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

Market Committee, as well as the Research, Development and Innovation Committee within ENTSO-E. Within the System Operation Committee, the most important activities in 2019 were related to the preparation and signing of the SAFA (Synchronous Area Framework Agreement) and related documents, as well as the successful implementation of the Notification Process procedure, related to the approval of HVDC cable connection between Montenegro and Italy, by ENTSO-E.



Figure no 4: ENTSO-E interconnection transmission network map

(Source: <https://www.tscnet.eu/europe-power-system-2040/aboutus/whoweare.html>)

714/2009 as an integral part of Third Energy Package of the European Union legislation 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.

Representatives of CGES in 2019, in addition to participating in the work of the Assembly, participated, among other things, in the activities of the System Committee, the System Development Committee, the

SMM Control Block

CGES AD Podgorica administrates the ENTSO-E control area of Montenegro. The control area of Montenegro is part of the Control Block SMM, which also includes the control area of Serbia and Macedonia. Coordination of 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 established in CGES in charge of the work within the SMM Control Block.

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 member from 19 MED countries, endeavours to contribute to implementation of declared objectives, making of decisions and work of this association.

Membership in 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 (Smart grids).

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.

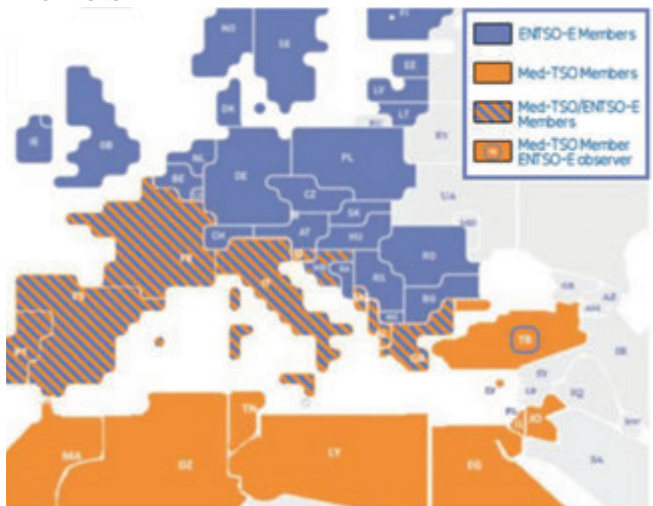


Figure no 6: Med-TSO Association Members
(Source: <https://www.med-tso.com/members.aspx?f=>)



Figure no 7: Crossbow projekat
(Izvor: <https://www.eusew.eu/crossbow-horizon-2020-clean-energy-across-europe>)



Trinity project Membership

The TRINITY project aims to contribute the interconnection of the electricity market in the region of South East Europe (SEE) and joining the multi-regional coupling market (MRC).



Figure no 8: Trinity project
(Source: <http://trinityh2020.eu/>)

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 EU and South East Europe.

AIMS Market Coupling Participation

Albania, Italy, Montenegro and Serbia established a sub-regional project called AIMS MC aimed at coupling day-ahead electricity markets.

In 2019, activities were based on the development of an Analysis of preconditions of the AIMS project, thus taking a step forward towards achieving the objective of market coupling between Albania, Italy, Montenegro and Serbia. The Analysis includes key preconditions that are necessary to be fulfilled to achieve the said objective, and at the same time, an insight in key challenges that could block or delay the implementation of this initiative was provided.

17. Internal audit

As part of the governance and internal control system, the role of internal audit is to provide independent, objective assurance and advisory services that will contribute to achieving the Company's objectives and improving operations.

In this regard, during 2019, the following activities were carried out:

- **The Internal Audit Strategic Plan for the period 2019-2021 and the Annual Internal Audit Plan as its integral part thereof were adopted:**

Strategic plan supports the goals of the Company, ensuring that internal audit contributes to the improvement of business governance, risk management and control processes.

The annual plan is prepared on the basis of the Strategic Plan and is determined for the following year by the end of the current year.

- **Implementation of the Internal Audit Plan for 2019:**

In accordance with the Internal Audit Plan for 2019, four audits were performed:

1. Public procurement planning;
2. Office and archival operations;
3. Investment planning, reporting and monitoring of project implementation; and
4. Transmission System Operational Control.



18. 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 2019, and its financial performance and its 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 2019;
- the statement of profit and loss and other comprehensive income for the year then ended;
- the statement of changes in shareholders' 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 and auditing regulation effective in Montenegro. Our responsibilities under this regulation 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on Auditing that are relevant to our audit of the financial statements in Montenegro. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on Auditing in Montenegro.

Our audit approach

Overview

Materiality

- Overall materiality for financial statements: EUR 1,340 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 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 Company materiality	EUR 1,340 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
<p>Revenue recognition - sale of imbalance power</p> <p><i>Refer to note 2.18 (Summary of accounting policies) and note 20 (Revenue from sale).</i></p> <p>The Company has recognised revenue of EUR 38,045 thousand, including revenue from sale of imbalance power of EUR 3,817, fully compensating incurred costs for purchase of imbalance power, for the year ended 31 December 2019.</p> <p>The most significant revenue streams are grid network usage revenue and charge for engagement of network capacity, which generally are invoiced on a monthly basis.</p> <p>The income of imbalance power (secondary and tertiary reserve capacities engagement) is ascertained through a nationwide imbalance settlement procedure and final imbalance settlement is completed subsequent to performance of these services by the Company.</p> <p>Due to the above, the revenue recognized for sale of imbalance power in the financial statements involves significant management's estimates and judgement.</p> <p>As a result of these complexities, we have selected revenue recognition as a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> - 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 923 thousand as at 31 December 2019.

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,
- evaluating the financial statement' disclosures related to legal provisions.

Reporting on other information including the Management Report

Management is responsible for the other information. The other information comprises the 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 identified above 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 Management Report we also performed procedures required by the Law on Accounting in Montenegro. Those procedures include considering whether the 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 of 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, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the 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 and auditing regulation effective 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 and auditing regulation effective 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, related safeguards.



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

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

Refer to the original signed
Montenegrin version

Biljana Bogovac

Licensed auditor

Podgorica, 14 May 2020

Refer to the original signed
Montenegrin version

PricewaterhouseCoopers d.o.o., Podgorica

This version of our report/ the accompanying documents is a translation from the original, which was prepared in Montenegrin. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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