

Annual report of SEE CAO 2021

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Dear partners and colleagues,

I am glad to reach out to you one more time as Chairman of SEE CAO's Board of Directors, which is my role within the company for the last nearly four years of operations.

Being part of this story is satisfactory for me on professional and personal level and I am very proud of the quality and the good work which is done through our allocation office. Early implementation of FCA guideline in the SEE region, applying the best European practice, gathering the team of educated professionals and experts in their fields and providing the continuity of quality work are only some of the indicators of achievements of SEE CAO.

Successful performance of yearly, monthly and daily auctions in 2021 with neither one contestation received, as well as affirmative feedback received from all included subjects strengthened the position of SEE CAO as respectable allocation office in the European energy market.



Omer Hadžić,
Chairman of Board of Directors

A stylized handwritten signature in dark ink, consisting of a large, flowing 'O' followed by several loops and a final sharp stroke.

During the last few years SEE CAO records expansion in provided services, upgrade of main auction tool to satisfaction of numerous trading companies, increase of number of participants, serviced borders and consequently total work overload and I am more than sure that this team will continue with this good practice in the years to come.

It is complementary to remind that in 2021 SEE CAO launched new Auction Tool and performed important hardware upgrade, while also introduced new service of secondary reporting on behalf of registered participants. We look forward to results of our work on update of SEE CAO Set of Rules with the aim of alignment with HAR on EU level and all the steps that SEE CAO is taking towards full alignment with European regulation and practice.

I hope that this Annual Report will provide useful perception of our activities that marked 2021 and I am grateful and pleased to share with you the satisfaction of having one more successful business year behind us.

Dear partners,

It is my pleasure to look behind us and state that during one more year SEE CAO managed to confirm its position as reputable and recognized allocation office in SEE.

Despite the very complex situation in the energy market and very serious health treat which was caused by the, hopefully vanishing pandemic, we succeeded in achieving very good business results.

Three new borders, no cancelation of auctions and mutual satisfaction in terms of business processes shown by market participants and our shareholders make the business results noticeable.

During 2021 we were recognized as contributing partner in a very important European project Trinity, focused on increasing regional border capacities of transmission systems by means of intelligent market technologies, being implemented under the auspices of the European Commission Innovation and Networks Executive Agency.

I am especially proud on our donation to Foster Home Mladost Bijela which was made by our company and I am very pleased that SEE CAO created and maintains good practice of socially responsible corporate behavior.

I am thankful to our employees and their efforts and believe that these business results would be unimaginable without their full commitment and engagement. Our constant good results imply an obligation to justify the expectations throughout the challenges that are ahead of us and I am sure that our strengths, together with valuable support of our shareholders, will lead us to new accomplishments and growth.



Ivan Bulatović,
Executive Director

**Three new borders, no
cancelation of auctions and
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business results noticeable.**

Abstract

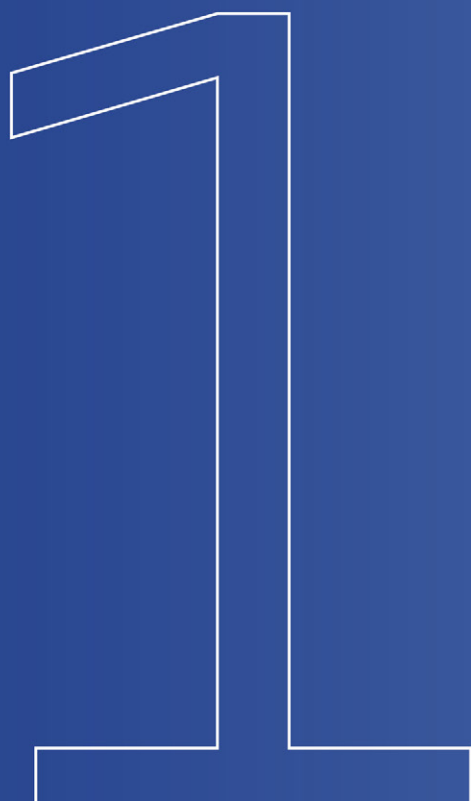
With this Annual Report we tried to provide our partners with an important insight if interested in operations of SEE CAO during the preceding year, providing a window into our achievements in the year of 2021, with details about our business and corporate performance in this particular point of time.

Similar to 2020, the year of 2021 was challenging, marked with numerous uncertainties on global level, a year in which we were additionally confronted with our limits in terms of COVID-19 pandemic and strengthened the need

for further digitalization and securement of business processes.

We are glad that we were able to, at least during a short time in 2021, regain a sense of normality, meet with our partners and colleagues and re-feel the environment of less demanding times.

Thank you for interest and taking time to read about 2021 as seen from our impressions and perspective, in photos, activities and numbers.



About us



Coordinated Auction Office in South East Europe (SEE CAO) was established as limited liability company owned by Transmission System Operators for Electricity from South East Europe and registered in Montenegrin Commercial Registry in 2014. The core business activity of SEE CAO concerns the allocation of cross-border transmission rights through auctions defined by SEE CAO Set of Rules.

SEE CAO's activities are focused on organizing explicit allocation of long-term and daily physical transmission rights in range of SEE region and during 2021 SEE CAO organized coordinated auctions on 10 bidding zones borders.

SEE CAO's activities are conducted in accordance with the basic requirements of Commission Regulation (EU) 2016/1719 establishing a guideline on forward capacity allocation (FCA GL), having regard to Regulation (EU) 2019/943 of the European Parliament and of the Council on the internal market for electricity and Regulation (EC) 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross border exchanges in electricity which later became part of Energy Community acquis in line with the stipulations of Energy Community Treaty.

All of SEE CAO's operations comply with the principles set forth in the Energy Community Treaty which among other areas deals with, the common rules for the internal market in electricity (including harmonization of congestion management methods in SEE) and where applicable, its implementation in the national legislation of concerned countries relating to each of them.

We are glad to state that after 7 years of operations our company is recognized as trustful part of energy market, which serves both service users (TSOs) on whose behalf long-term and daily physical transmission rights (PTRs) are allocated and market participants (traders) who take part in auctions organized at our platform.

At this moment, explicit auctions are conducted for yearly, monthly and daily periods on the following bidding zone borders:

1. Croatia – Bosnia and Herzegovina;
2. Bosnia and Herzegovina – Montenegro;
3. Montenegro – Albania;
4. Albania – Greece;
5. Greece – Turkey;
6. North Macedonia – Greece;
7. Italy – Montenegro;
8. Kosovo – Albania;
9. Kosovo – Montenegro; and
10. Kosovo – North Macedonia.

In addition to auction processes, SEE CAO is reporting the outcome of auctions and secondary market in line with Regulation (EU) No 543/2013 on submission and publication of data in electricity markets ("Transparency Regulation") and Regulation (EU) No 1227/2011 on wholesale energy market integrity and transparency (REMIT), latter being applicable for borders of its service users from EU member states.

During 2021, upon entering into force of European Commission Decision on REMIT fees, SEE CAO investigated the possibilities for performance of reporting secondary allocation and included this service in its scope from the beginning of 2022.

We are glad that SEE CAO is seen as one-stop-shop in terms of cross-border capacity allocation in the region and is constantly oriented towards improvement of provided services and expansion of their scope if and when required and found feasible by market participants and/or service users.



Shareholders of SEE CAO

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Shareholders of SEE CAO



Croatia
Hrvatski operator prijenosnog
sustava d.o.o.



Bosnia and Herzegovina
Nezavisni operator sistema u
Bosni i Hercegovini



Montenegro
Crnogorski elektroprivredni
sistem AD



Albania
Operatori i Sistemit
te Transmetimit



Kosovo
Operator sistemi, transmissioni
dhe tregu Sh.A.



Greece
Independent Power
Transmission Operator

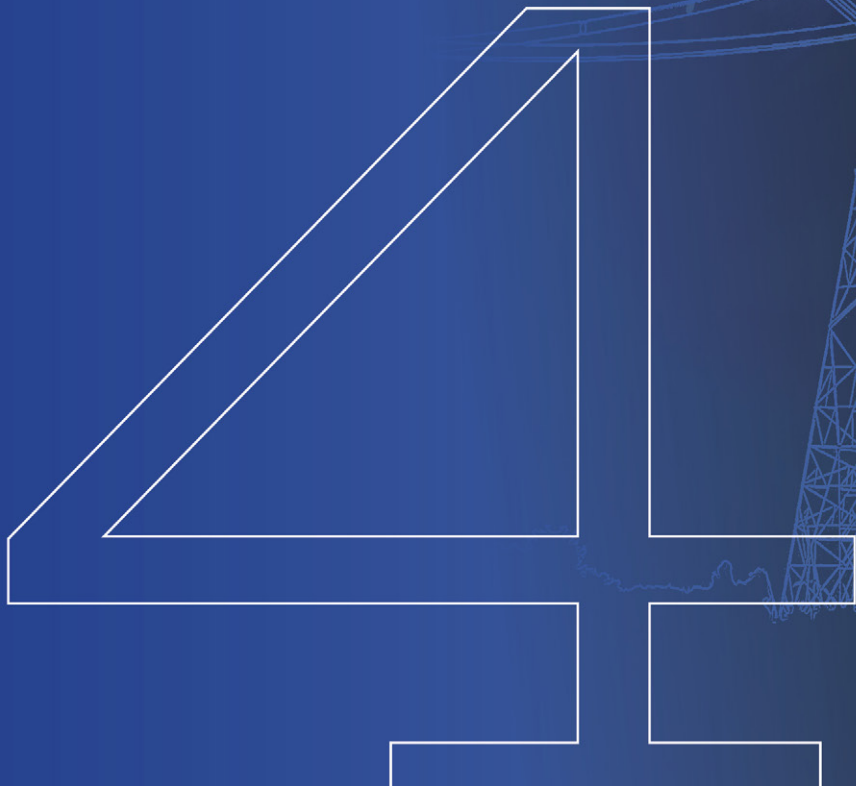


Turkey
Türkiye Elektrik
İletim A.Ş.



North Macedonia
Оператор на електропреносниот
систем на Република Северна
Македонија

Highlights of 2021



After challenging and demanding 2020 during which SEE CAO has managed to cope with all the difficulties brought by COVID-19 pandemic, 2021 was the year of stabilization and invigoration. Precaution measures taken in previous year have proven justified and ensured smooth operation with high-quality results.



100 % efficiency

Reliability



Accuracy

0 cancelled auctions

0 contestations received

2021 was the first year of service provision on KOSTT borders: Albania – Kosovo, Kosovo – Montenegro and Kosovo – North Macedonia, while on all other borders the continuity of smooth operation was kept. Successful inclusion of three new borders in SEE CAO allocation processes has proven our capability to grow and to face the challenges on path of our development. In that sense, year 2021 is used for building up our capacities, both through improvement of IT infrastructure and through strengthening of our human resources.

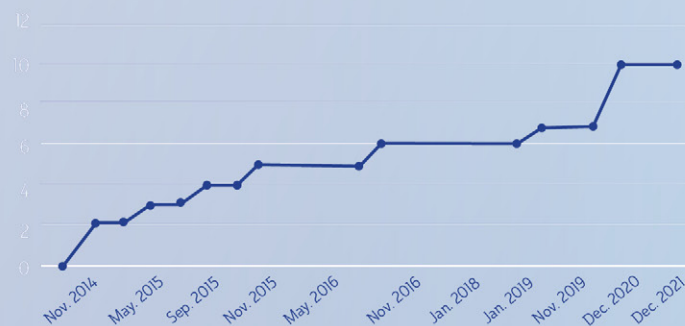
Upgrade of Damas Auction Tool, the core asset of our operation, is completed in 2021 and provides firm ground for future SEE CAO developments. It brought a lot of novelties, which will improve end-user experience and facilitate its everyday use.

SEE CAO takes care on needs of its end users. In that regard, based on interest expressed by market participants, SEE CAO has introduced new service – REMIT reporting of secondary allocations.

Besides user satisfaction, we constantly aim to reduce operational risks by improvement of controlling systems. These were the reasons for replacement of accounting software in 2021, which brings additional automatization of the process and wider range of functionalities that will increase process efficiency and enable higher compatibility with international financial standards and national legislation.

The most important resource of SEE CAO are its employees. Their best day-to-day efforts to provide the smoothest experience possible are well recognized by the market participants. With aim of retaining the most quality performance of SEE CAO's personnel we have analyzed our needs and strengthened our team by two new colleagues to be ready to meet all the challenges in years to come.

NUMBER OF BORDERS IN SEE CAO

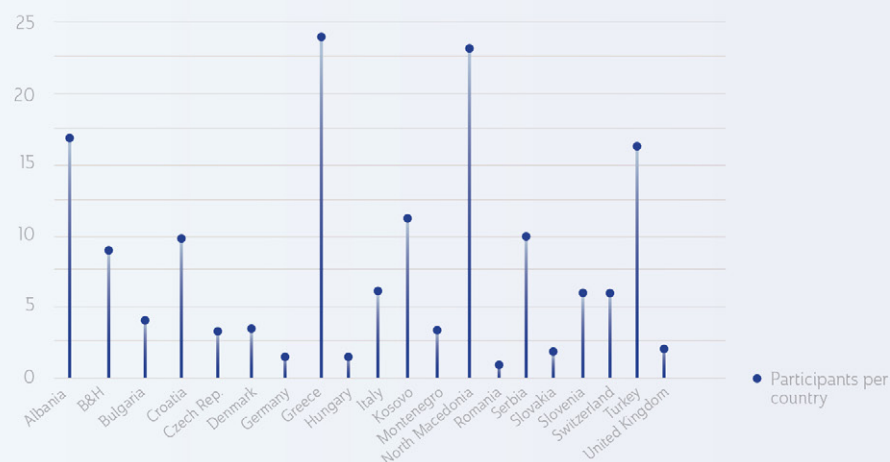


Number of borders operated by SEE CAO remained unchanged (10) in 2021, but this fact didn't affect the growth of number of registered market participants. At this moment, we are proud to provide services to customers from 19 different countries from all parts of Europe. In the previous year number of registered participants increased for 19, amounting 155 at the end of 2021.

Number of registered participants in SEE CAO



SEE CAO registers constant growth of number of participants, with exception to year of 2017 when there was a drop in number of registered participants due to start of application of HAR and the obligation of participants to re-register their status in accordance with new rules.

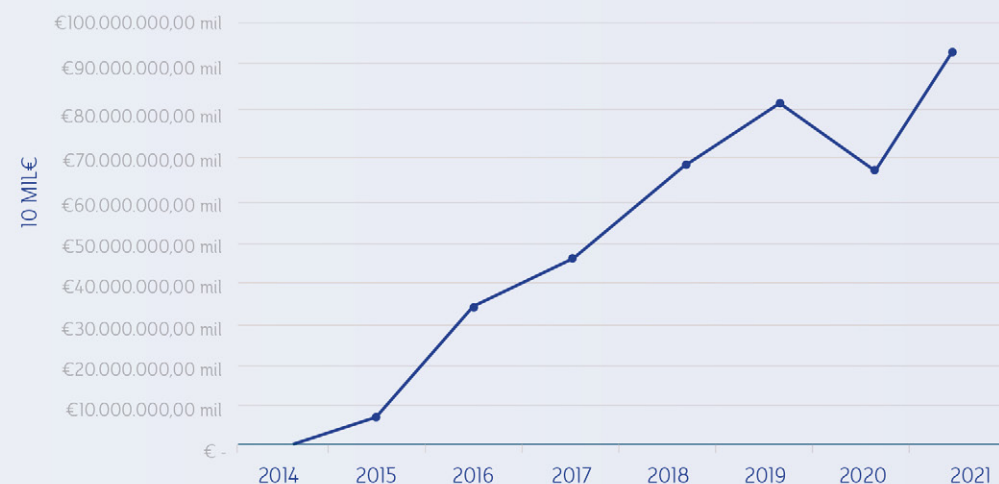


By the end of 2021, SEE CAO has conducted 92 long-term auctions and 2557 daily auctions on 10 borders (20 border directions).



After the decline in congestion revenues in 2020, mainly attributed to the impact of COVID-19 pandemic, 2021 has brought new uncertainties on electricity markets, which has caused extremely high electricity prices but also high price differences which results in highest congestion revenue¹ so far.

Congestion revenue



During 2021 SEE CAO team has continued with activities within TRINITY, project granted by European Commission as a part of EU-funded Horizon 2020 R&D programme, which aims to develop a set of solutions to improve market integration and cross-border trade in SEE region by connecting EU and non-EU countries. Within the project, SEE CAO has developed module for explicit intraday auctions as a backup for intraday market coupling.

¹ Congestion revenue figures available on SEE CAO website and ENTSO-E Transparency Platform.

Yearly Focal Points

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- **JANUARY:**
New accounting software;
- **FEBRUARY:**
EnC Regulatory School Training – Special aspects of implementing REMIT Regulation 1227/2011;
- **MARCH:**
Webinar for Registered Participants (presentation of new Damas);
- **MARCH:**
Launching of new Damas Auction Tool;
- **APRIL:**
Update of basic corporate act – Articles of Association;
- **MAY:**
4th Value added tax Workshop on cross border transactions in electricity, Energy Community Secretariat;
- **JUNE:**
26th Athens Electricity Forum;
- **JULY:**
TRINITY – start of module development;
- **SEPTEMBER:**
CIGRE Montenegro conference;
- **DECEMBER:**
KEP Final Conference;

Technical Report



Introduction

Providing an unobstructed business flow has always been a challenge from technical standpoint. There are plenty of different aspects which should be considered in all times, which could potentially affect everyday operation.

Since the very first day of its operation, SEE CAO was growing an environment, a business culture where success and satisfaction of our customers was being set as the main goal. With such approach and, with complete commitment of our team, we have managed to provide flawless service to all related customers.

IT infrastructure

Behind successful operation there is a strong infrastructure. Today, that is a main prerequisite for starting and maintaining any business.

The core and primary asset of SEE CAO operation is Damas Auction Tool, a software solution necessary for conducting cross border capacity allocation. Whole system is run by a sophisticated hardware hosted in modern data centre located in Podgorica, Montenegro. Being implemented in line with the latest best practices, the solution fully satisfies high demanding requirements of cross border capacity allocation, in terms of reliability and security.

Damas itself is a web oriented application, a platform available to its customers 24/7, in charge of conducting complete business flow starting with organization and execution of long-term and daily auctions, followed by secondary market and risk management, and finally finishing with statistics, reporting and data publishing.

An upgrade project, concerning Damas Auction Tool which started during 2020, was finally completed on 31st of March 2021, resulting in first auctions being run on brand new Auction Tool.

New version of Damas has been recognized as one of the most advanced solutions available on the current market and is entirely suitable for ongoing, as well as future needs of SEE CAO. Upgraded software covers all auction office market-related processes with advanced system security and support of a wide range of interfaces (FTP, SFTP, ECP, email, Web services).

The most pleasing part of Damas upgrade project was approval and recognition from those who use it the most - market participants, as they were ones who widely expressed their satisfaction by new Auction tool and its user friendliness, reliability and responsiveness.

Investments in IT infrastructure are inevitable for retaining smooth functioning of the system and quality of services provided by any company, especially having in mind the continuous and tremendous development of information technologies. SEE CAO is no different, and we will give our best to keep up with latest IT requirements dictated by business development.

Auctions

During 2021 SEE CAO has successfully conducted following auctions:

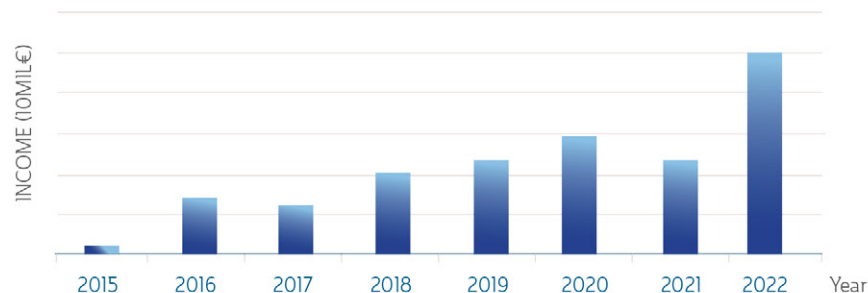
- Yearly auction for 2022;
- 12 monthly auctions;
- 365 daily auctions.

All auctions were performed successfully, with no auction cancelation and no contestation from auction participants.

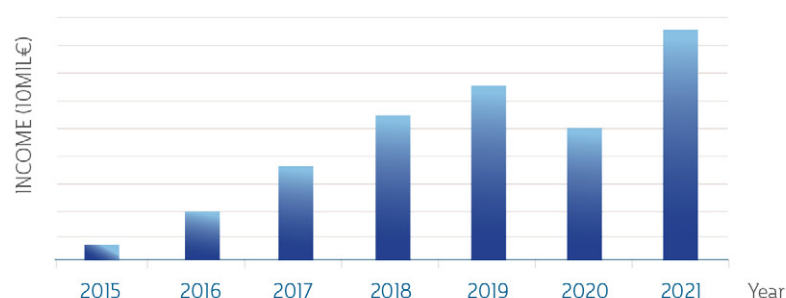
Decrease of liquidity in electricity markets during 2020, caused by COVID-19 pandemic has significantly affected congestion revenues in that year, including yearly auctions for 2021 (held in December 2020). On the contrary, 2021 has brought high volatility on electricity market which caused not only high prices but also high price differences what resulted with record high prices of cross-zonal capacities. Congestion revenues² generated during 2021 on all three timeframes (yearly, monthly and daily) were significantly higher in comparison to 2020. Below graphs display congestion revenue from yearly, monthly and daily auctions:

² Congestion revenue figures available on SEE CAO website and ENTSO-E Transparency Platform.

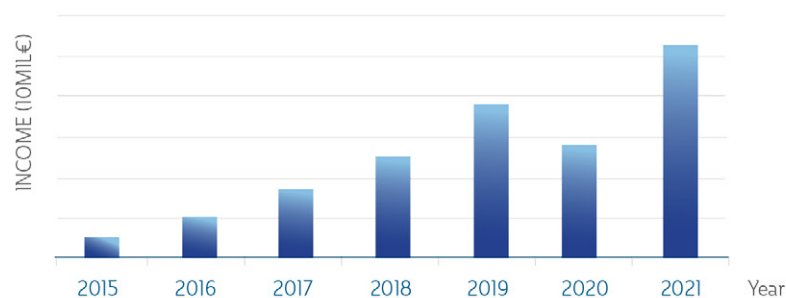
Revenues from Yearly auctions



Revenues from Monthly auctions

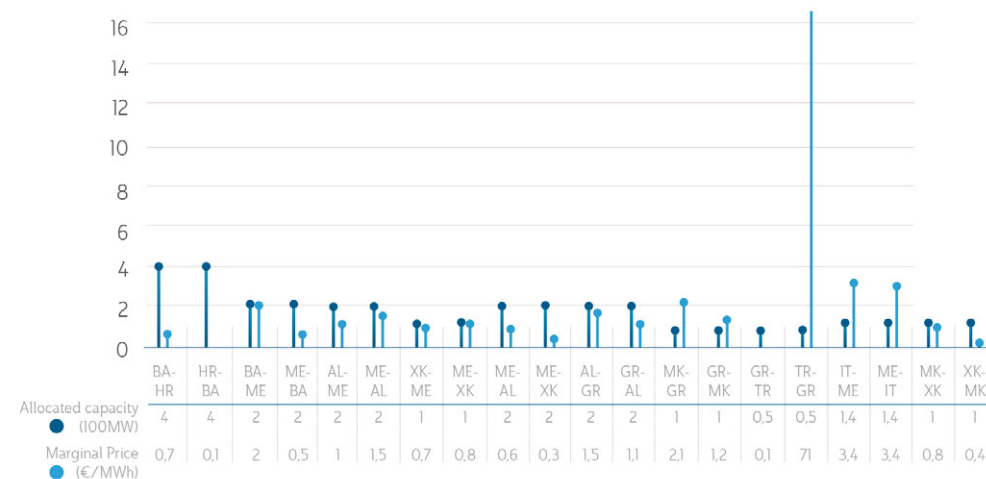


Revenues from Daily auctions



Yearly auctions for 2022 were completed with following results:

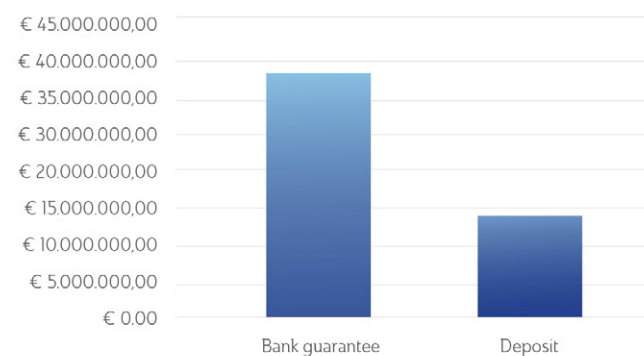
Results of Yearly Auction 2022



Collaterals

In order to be able to participate in auctions organized by SEE CAO, our customers, registered participants, need to provide a risk management instrument, i.e. collateral. Collaterals can be in a form of cash deposit or bank guarantee. Their standard templates are defined in Financial terms. At the end of 2021, total funds provided as collateral for participation in auctions exceeded 74 million €.

Risk management instruments



Transparency and Reporting

“Transparency Regulation”

SEE CAO was one of the first data providers who started reporting of following explicit allocation set of data to ENTSO-E Transparency Platform as of 5 January 2015 on behalf of its service users:

- Yearly offered cross-zonal capacity;
- Monthly offered cross-zonal capacity;
- D-1 offered cross-zonal capacity (NTC);
- Explicit allocation - the capacity, requested by the market;
- Explicit allocation - the capacity allocated to the market;
- Explicit allocation - the price of the capacity;
- Explicit allocation - the auction revenue per border between Bidding Zones;
- Total Capacity Already Allocated;
- Transfer capacities allocated between Bidding Zones in Member States and third countries;
- Configuration of transmission capacity allocation.

It is important to note that reporting to ENTSO-E Transparency Platform has significantly contributed to the enhancement of the transparency in the SEE region.

REMIT

By entering into force of REMIT on 25 October 2011 enacted by European Parliament and the Council and in particular the Commission implementing Regulation (EU) No 1348/2014 among other stakeholders also TSOs from EU Member States became obliged to report the transactions regarding capacity allocation to the Agency for the Cooperation of Energy Regulators (ACER), starting from 7 April 2016. With aim of providing service of mandatory reporting to its service users from EU Member States, SEE CAO has been registered at ACER as Registered Reporting Mechanism on 2 August 2016. From that date, SEE CAO regularly reports data to ACER REMIT Information System (ARIS), while all required data for period April – August 2016 were delivered retroactively.

In the name of Greek TSO IPTO, Croatian HOPS and Italian TERNA, SEE CAO reports the below listed transactions from primary allocation (for the borders HR-BA, GR-AL, GR-TR, GR-MK, ME-IT):

- Offers/bids;
- Capacity Allocation time series (Yearly, Monthly, Daily);
- Auction results; and
- No-Bids auction time series.

The remaining borders can easily be reported from Damas Auction Tool once it becomes mandatory for the non-EU countries.

During 2021, upon interest expressed by market participants, SEE CAO has prepared provision of new service – reporting of secondary allocations in line with REMIT. For this purpose, a new module within DAMAS Auction Tool is activated, which enables reporting of transactions related to secondary allocations (return and transfer) on behalf of interested registered participants. This service will be available to registered participants as of 1 January 2022.

Business Organization and SEE CAO's team





Business Organization

Organization of SEE CAO as limited liability company registered in Montenegro is subject to local laws and corporate framework.

Our company has three governing bodies being the Assembly of SEE CAO's eight shareholders, Board of Directors consisted of members nominated by each shareholder and Executive Director.



The Assembly of shareholders is the highest body in the company's organization, and the shareholders of SEE CAO, according to the rules set out in Articles of Association, organize the governance structure and agree on levels of decision making.

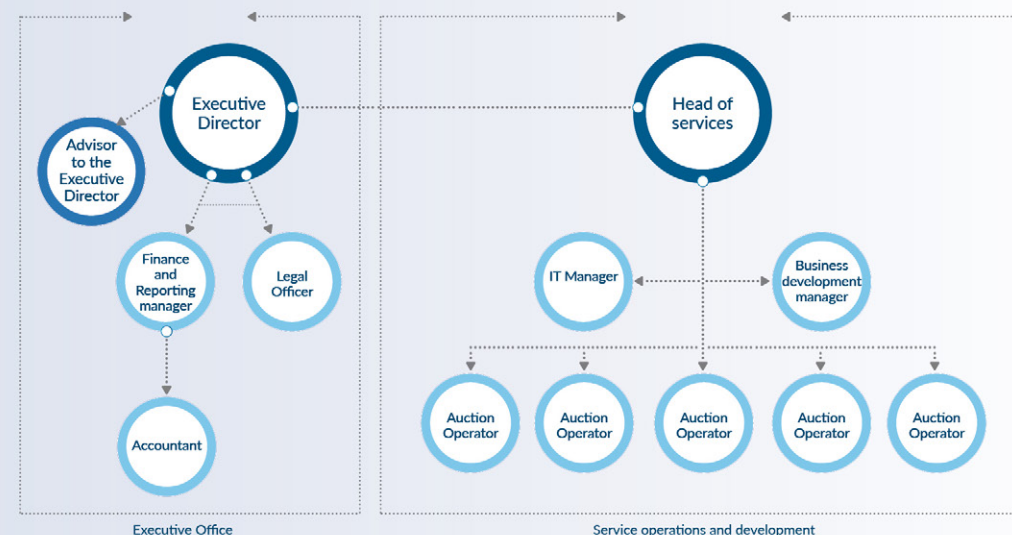
The Board of Directors, headed by its Chairman, is a collective body which governs the company and supervise its business activities, all in accordance with applicable regulations, enacted internal rules and legal requirements of Montenegro.

The Executive Director organizes all business activities of the company, represents and acts for the company within the limits of his authority and enforces decisions made by the Board of Directors.

Communication of Executive Office and Board of Directors is of an essence for work, perspective and development of SEE CAO. We manage to keep this connection successful by frequent organization of meetings, established reporting procedures and constant communication.

Our Team

SEE CAO employees are covering management, operational, financial and legal positions.

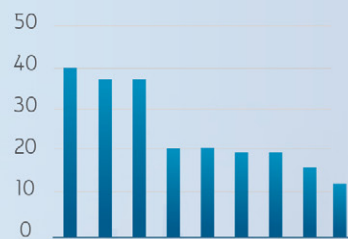


Systematization chart

Our team is young, energetic, focused, dedicated and efficient at what it does. As a close-knit group we strive for enriching our capabilities, continuous professional development, teamwork, and collaboration.

In 2021, in line with our development plans, we have strengthened our team with two professionals in financial and operational departments, which will contribute to reliability and quality of our service.

Employees age



Work experience



Gender



We are dedicated not to disclose any information important to parties involved in the auction process which is why all information related to technical, financial and legal processes are performed within the office, without any outsource of work.

Employees are acting as a “front-office” towards the traders and service users and as such provide reliable, compact, and efficiently organized service, which is our strongest attribute and value.

Compliance



A culture of compliance is fundamental to protect our company values and our reputation in the market.

SEE CAO obeys all national regulatory, corporate and financial laws, as well as recommendations of key authorities within the Montenegrin state governance, by which we aim to generate value for our company.

For certain areas, our company's policy is even more strict than it is required by national laws, which is why one of the "big four" audit companies revises our financial reports on a yearly level, despite the facts that by the rule of national laws we are not obliged to engage auditors for the reports. Regardless of this, we do it by choice since our sole objective is complete and absolute compliance.

Conforming to normative guidelines, applicable rules and operative work within a structured information system seek our continued attention. Only in this way we may comply with extensive set of rules covering accounting, corporate governance, labour, tax, finance, operations, data protection and corruption.

All procurements are performed in line with internal rulebooks and we pay extreme attention to selection of our suppliers.

Executive office discusses all important aspects of interim and durable performance on weekly meetings attended by representatives of all departments within the company. All procurements are performed in line with internal rulebooks and we pay extreme attention to selection of our suppliers. Professionalism and high performance qualities of our suppliers is important to us and we strive to build good and lasting relations.

Creating a risk-aware culture for success



Risk management and risk culture are key factors of success of all operational teams. We believe that everybody in the organisation from top to bottom must have a daily focus on safety and risk in the jobs that they do, or in the situations that they come across. Risk culture is about a plan to create a company in which everyone is safety-conscious and it starts with the leadership of the organisation.

COVID-19 pandemic forced us to consider how amended work practices will help or hinder our efforts to strengthen the risk culture. We truly believe that in a mature and proactive risk culture, staff have no fear of raising issues or concerns and we encourage such actions within our team.



Development of Business Processes

1

During the mid-2020 new Montenegrin Companies Act was adopted by Montenegrin parliament, qualified as innovative and thoroughgoing codification of Montenegrin Corporate Law and SEE CAO undertook to timely make amendments of relevant corporate acts in order to comply with newly prescribed corporate rules.

We believe that good organization of tasks among the team is vital for business to thrive long term. In SEE CAO a great number of internal processes is regulated and that helps our team to keep the work structured, control activities and have a clear picture of ongoing activities in all times.

A small team such as ours must have the ability to coordinate quickly and efficiently and this is our constant performance goal. We strive to have the processes standardized, but also to keep the indispensable communication effective and constant. We are aware that we can successfully engage in our activities and confidently dive into tasks only when communication between the team is adequate and direct.

A small team such as ours must have the ability to coordinate quickly and efficiently and this is our constant performance goal.

The new version of Auction Tool has introduced the improvements in electronic data exchange in regards to supported data formats and flexibility in terms of communication. At the same time, it ensured the smooth and transparent transition for all involved parties and created firm basis for future system extension and possible introduction of new services.

Satisfaction of market participants is an important indicator of quality of provided service. In that regard, SEE CAO has conducted a pool targeting to identify possibilities for improvement of our operation. As a result, several system improvements have been introduced, whereas the most important one was the establishment of new service – REMIT reporting of secondary allocations, on behalf of interested registered participants.

During 2021 we actively participated in TRINITY project, which gave us the opportunity to be a part of this very important EU project and share our knowledge and practise with colleagues from all Europe also having positive impact in our financial figures.

During the precedent year we also formed a working group together with service users aiming to comply with HAR on EU level, and in 2022 we will continue with this work and hopefully bring this process to its end by adoption of new HAR applicable on SEE CAO borders.

Our team has joined the TRINITY project focused on increasing regional border capacity of transmission.

Financial Aspects of Business



SEE CAO's financial stability is ensured by regular monthly revenues (inflows) for services provided to their users.

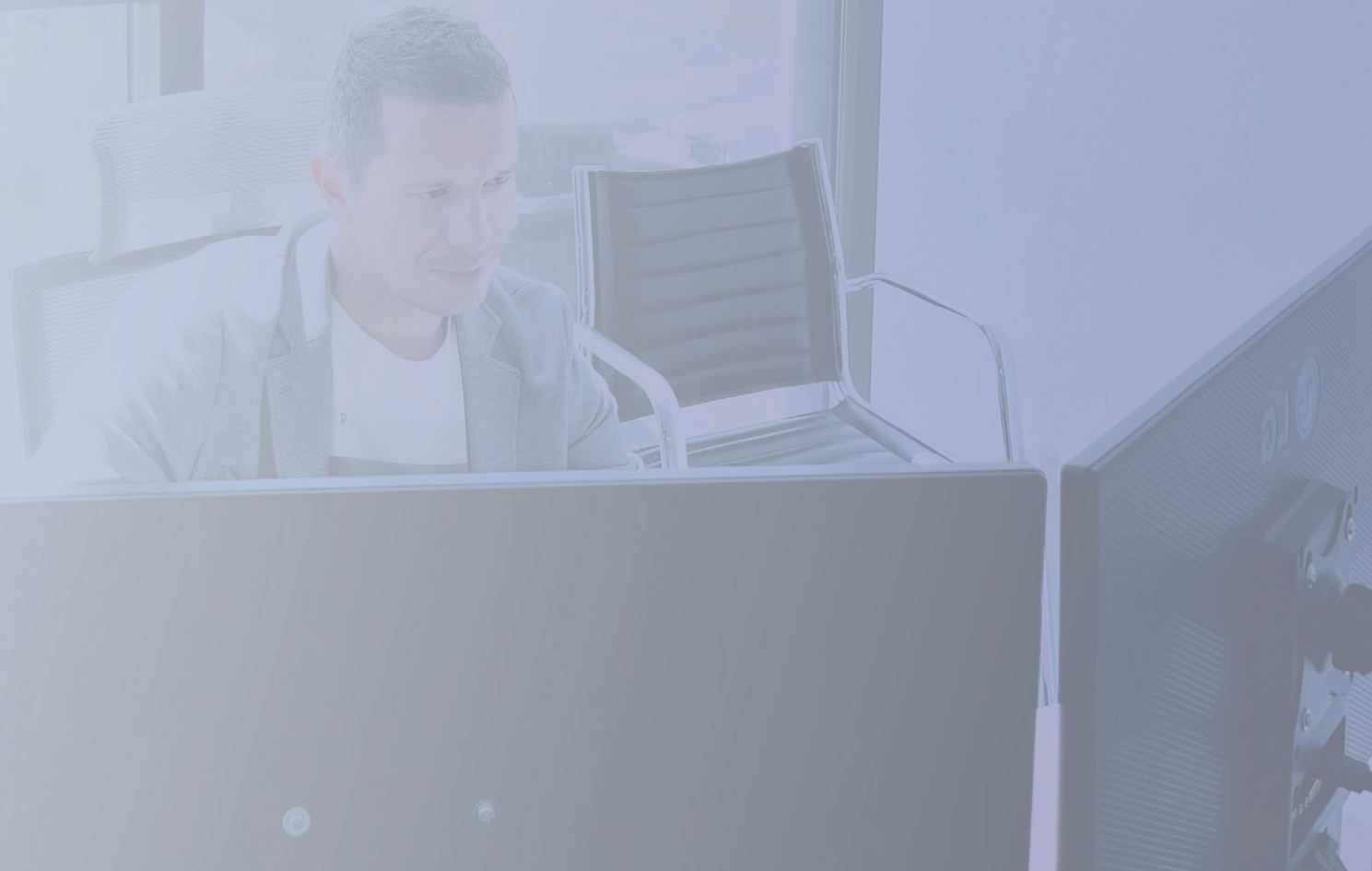
The annual budget is approved by the Board of Directors and is a guarantee of quality and stability of company's business.

During the previous business year, all collection of revenues was performed in accordance with planned dynamics, while the company was settling its obligations in accordance with the maturity dates. When designing the budget, particular attention is given to investments plans, both in terms of timely depreciation of existing fixed assets and in further development of modern software solutions.

Every year financial statements of the company are subject of review and appraisal by one of the reputable external audit companies. The financial statements for 2021 have been audited by BDO International and have been assessed as true and objective in accordance with the accounting rules of Montenegro.

The annual budget is approved by the Board of Directors and is a guarantee of quality and stability of company's business.

All financial processes within the company are constantly monitored by our financial staff and group of financial experts from our shareholding TSOs, which gives us comfort of having dual checks of company's financial receivables and obligations.



Social Responsibility



During 2021 we were reassured in importance of social responsible acting as it seems that these years keep testing the humanity in global.

At the end of 2021, governing bodies within SEE CAO together with SEE CAO's employees donated the funds to Foster Home "Mladost" in Bijela, Montenegro and we are more than glad that the donation was placed into the right hands. We are thankful to be able to continue with cherishing the importance of corporate social responsibility by taking an active participation which can inspire, set good examples and make the impact into the lives of individuals.

We truly believe that sometimes it takes one small act of kindness to create ripple effect that will make all the difference, which is why we look forward to our future plans and activities bound up with empathy and benevolence.

We are thankful to be able to continue with cherishing the importance of corporate social responsibility by taking an active participation which can inspire, set good examples and make the impact into the lives of individuals.



Challenges That Lie Ahead



We are proud and thankful that in terms of business for SEE CAO 2021 was a year of effort and progress.

Our main goal which is always the focus of all our efforts is steady and secure provision of services to our service users. We are assured in full satisfaction of registered participants and are glad that, after one more year, we can state that all operational activities, including performance of yearly, monthly and daily auctions in 2021 were fully successful with neither one contestation received nor any lapse in invoicing and settling procedures which remains our best recognition mark.

During the year of 2022 we plan to finalize the update of SEE CAO Set of Rules together with experts from our service users and look forward to applying this new set of rules starting from yearly auction for 2023.

The year of 2022 should also be the year in which we will see the final results of activities within the TRINITY project when the version of developed module for explicit intraday auctions as a backup for intraday market coupling will come to light. Since the big part of perspective in energy trading are market coupling projects which are expected to be in the centre of attention on regional electricity market SEE CAO shall observe development of these processes and be ready to take part with its eventual new services, if such interest is shown by SEE CAO shareholders.

We hope and believe that the times to come will bring steadiness and security and that, despite the disturbing events which shake the stability on global level, the universal values will proliferate and the challenging times to which we witness will be upended.

SEE CAO, March 2022

