

Company Annual Report 2017

JUGOPETROL AD



Podgorica, March 2018

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1. IDENTITY OF JUGOPETROL AD

1.1. General information

Jugopetrol AD is a petroleum company operating in Montenegro. It is a subsidiary of Hellenic Petroleum International, one of the largest oil companies in the Balkans.

The Company is presently the main supplier of oil products in Montenegro. Its main activities include wholesale of oil products through the operation of storage facilities in Bar and two aircraft supply facilities located at airports Tivat and Podgorica, as well as retail and distribution of oil products through the operation of 40 petrol stations and 3 yachting petrol stations.

The infrastructure of Jugopetrol AD consists of:

- A retail network of 40 petrol stations;
- 3 yacht service stations in Kotor, Budva and Herceg Novi;
- The petroleum installation in Bar with tank truck loading facilities. Jugopetrol owns 20 fuel tanks with the total storage capacity of 110.300 m3.
- 2 aviation fuel terminals in Podgorica and Tivat;
- A fleet of 18 tank trucks for supply of petrol stations and industrial customers, and 6 refuellers for supply of aircrafts at airports Tivat and Podgorica.

The Company uses the commercial brand "EKO", which is well-known and associated to high quality in the South East Europe region. It is the leading petroleum company in Montenegro.

1.2. Mission and strategic vision

Strategic Vision of Jugopetrol AD is to be “the leading petroleum company in Montenegro ensuring the fuel supply of the country while being a responsible corporate citizen”.

Its **mission** is to supply, reliably and effectively, the Montenegrin market, offering top quality products and services, serving its customers with efficiency and innovation, while respecting the environment and achieving the best possible financial results for its shareholders.

The cornerstones of this vision and the means to realize it are:

- Our people
- Our product offering
 - Highest quality fuel
 - Full coverage of the country
 - Full range of NFR
- Our service
- Being socially responsible

1.3. Core Principles

Jugopetrols core principles are in line with those of the Hellenic Petroleum Group, as follows:

The infographic is divided into two main sections on a teal background. The left section, titled 'Our mission', features the slogan 'Energy for Life' in orange and describes the company's goal to produce and offer top quality products and services in the energy sector, serving customers in the Greek and international markets with efficiency and innovation. The right section, titled 'Our Principles', lists eight numbered points: 1. Safety is always our First Priority; 2. We offer Value to our Customers; 3. We operate Responsibly towards Society and the Environment; 4. We respect our Colleagues and Partners promoting Meritocracy, Teamwork, Innovation, Continuous Improvement and Results Orientation; 5. We invest for Sustainable Development; 6. We continuously enhance our Competitiveness; 7. We apply high standards of Corporate Governance; 8. We create Value for our Shareholders and focus on the Continuous Improvement of our Results and Cash Flows.



1.4. Jugopetrol History

1947 Jugopetrol AD was established on April 12, 1947, with its Headquarters in Kotor, as a company for production and trade of oil and oil products. It started operating with very modest assets and resources at the earliest beginnings of oil industry in the former Yugoslavia.

1947-1957 This period is distinguished by the beginning of building the facilities- primarily the warehouses and then the petrol stations. The construction of warehouses at Ljuta, Titograd (now Podgorica) and Niksic started. Within this period the first electricity-powered petrol station was built in Titograd in 1954 and then the petrol stations in Kotor, Bar, Cetinje, Kolasin and Andrijevisa.

1957-1967 Beginning of rapid rise of oil consumption due to the development of all business activities in Montenegro. The first consumption of heating oil occurred in 1964.

1964 The first phase of the construction works of petroleum installation Bar started. This petroleum installation was the most modern facility in the Balkan area.

1970 Since 1970, Jugopetrol AD has the rights for hydrocarbons exploration in the territory of Montenegro and, for many years since, it has collaborated with foreign and domestic partners in this field. Within the period 1976 to 1981 the drilling of 3 exploration wells was done. The drilling of exploration well UK-1 near Ulcinj started in 1989. This well with the depth of 5,309 m was the deepest well drilled in Former Yugoslavia.

1992-1996 Jugopetrol AD managed its affairs as a Public Interest Company for exploration, exploitation and sales of oil and oil products and in December 1996 was transformed into a Shareholding Company.

2002 Jugopetrol AD became the member of the Hellenic Petroleum Group. Following the privatization of the company, Hellenic Petroleum, highly renowned and well-known Greek oil Company, became the majority shareholder of Jugopetrol AD Kotor. Since then, the retail network of the Company is operating under the commercial brand "EKO", well-known and respected in countries of the South East Europe region.

2014 Jugopetrol AD moved its headquarters from Kotor to Podgorica, the capital of Montenegro and administrative and business center of the country. Relocation acted as a catalyst to further structural reorganization of the company and improved efficiency. Following this move, the company changed its name from Jugopetrol Kotor AD to Jugopetrol AD.

70 years have passed from the establishment of the Company and Jugopetrol AD has been and still is part of the identity of Montenegro. The Company has passed through various phases of transformation and has been growing and developing together with the growth and the development of the country's economy, road network, tourism and other industries. It has grown into a large and powerful company passing through many organizational and operational transformations.

1.5. Scope of operations

Jugopetrol AD, member of Hellenic Petroleum Group, is the leading oil company in Montenegro.

Main business activities of the Company include:

- retail trade through the largest network of petrol stations in Montenegro,
- wholesale business including bunkering, aviation, other retail networks and commercial & industrial companies,
- storage and distribution of petroleum products.



2. JUGOPETROL AD SHAREHOLDING

2.1 Share Capital – Shareholders

a) Share capital

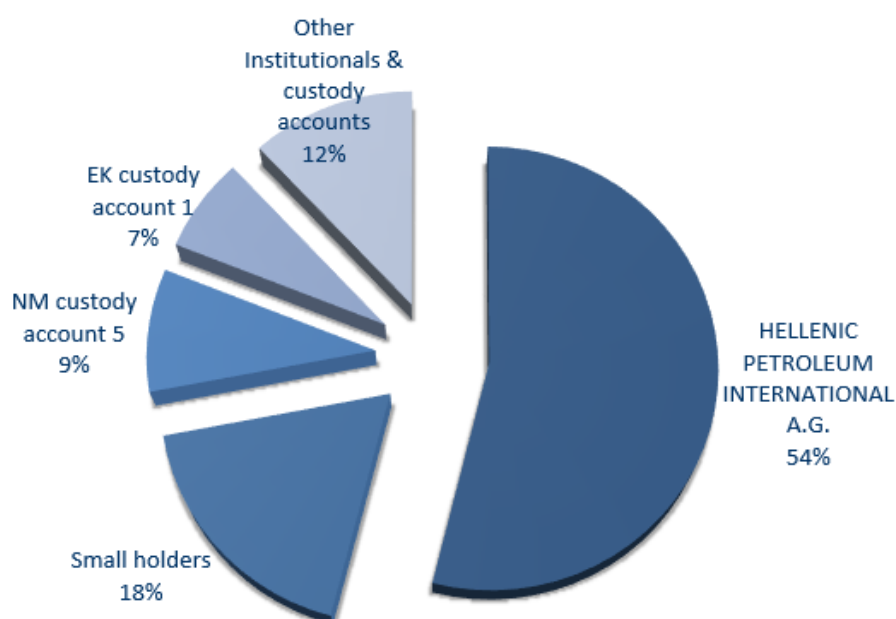
Jugopetrol AD has a share capital of € 67.986.605 divided into 4.653.971 shares with a nominal value of € 14,61 each. The company has not done any share buybacks and the total number of shares remained constant since privatization, while the share price has fluctuated as following:

Share Capital evolution Jugopetrol AD (thousands €)

	2014	2015	2016	2017
Share capital (€ '000)	67.987	67.987	67.987	67.987
Number of shares	4.653.971	4.653.971	4.653.971	4.653.971
Share price – YE (€)	10,00	12,50	12,66	11,70

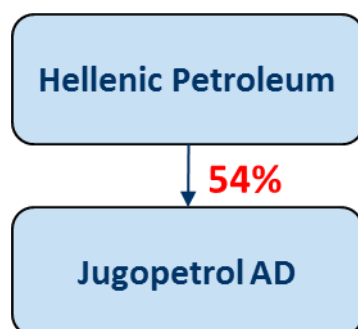
b) Shareholders

Jugopetrol AD has more than 3.000 shareholders. The majority shareholder is Hellenic Petroleum International with 54,35% of total shares.



2.2 Jugopetrol as part of Hellenic Petroleum Group

Jugopetrol AD is a subsidiary of Hellenic Petroleum International, one of the largest oil companies in the Balkans. Hellenic Petroleum owns a controlling stake of 54% of Jugopetrol's share capital which makes Jugopetrol a part of its group of companies.



Corporate structure of Hellenic Petroleum Group is shown in the illustration below:

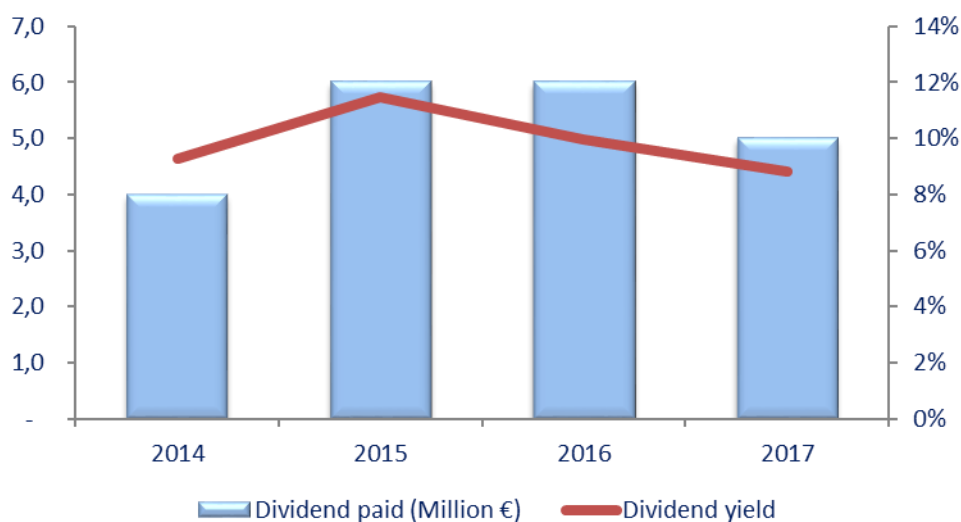
GROUP CORPORATE STRUCTURE	
Refining	HELLENIC PETROLEUM S.A
Fuels Marketing	HELLENIC FUELS AND LUBRICANTS INDUSTRIAL AND COMMERCIAL S.A. CALYPSO LTD
Chemicals	HELLENIC PETROLEUM S.A. DIAXON A.B.E.E.
International Operations (Refining & Marketing)	OKTA AD SKOPJE HELLENIC PETROLEUM CYPRUS LTD & RAMOIL CYPRUS LTD EKO BULGARIA EAD EKO SERBIA AD JUGOPETROL AD
Oil & Gas Exploration & Production	HELPE SA-EDISON INTERNATIONAL SPA-PETROCELTIC RESOURCES PLC HELPE SA-VEGAS WEST OBAYED LIMITED HELPE SA-PETROCELTIC MESAHA LIMITED-KUWAIT ENERGY COMPANY & BEACH PETROLEUM
Power Generation & Trading	ELPEDISON BV
Renewable Energy Sources	HELLENIC PETROLEUM - RENEWABLE ENERGY SOURCES S.A.
Engineering	ASPROFOS S.A.
Crude/Products Transportation & Pipeline Networks	A.A.F.P.C. S.A. VARDAX S.A. HELLENIC PETROLEUM - APOLLON MARITIME COMPANY HELLENIC PETROLEUM - POSEIDON MARITIME COMPANY
Natural Gas	DEPA S.A.

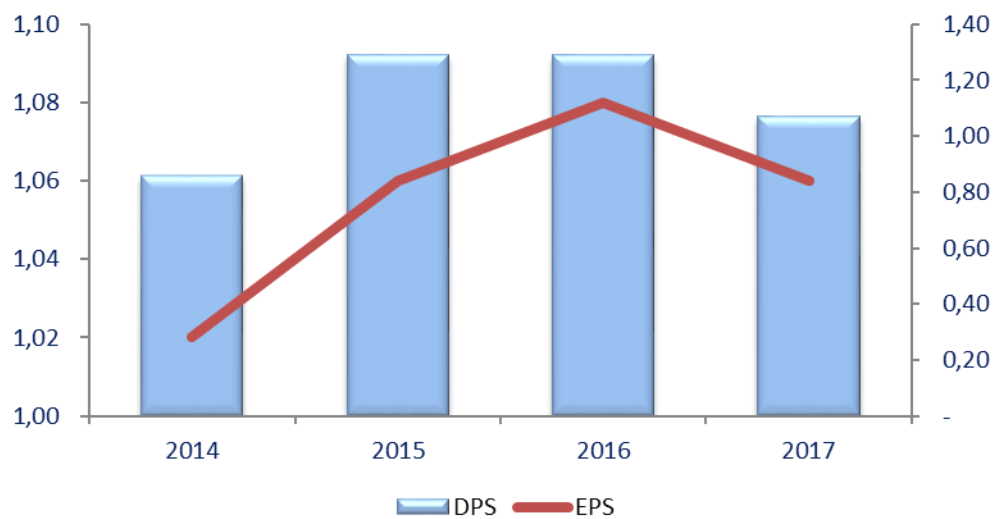
2.3 Market data

During 2017 average share price was lower for 6% compared to 2016, but still higher than in 2014 and 2015:



	2014	2015	2016	2017
Average share price (€)	9,3	11,2	12,9	12,1
Dividend paid (€)	4.002.415	6.003.627	6.003.623	5.003.018
Dividend per share (€)	0,86	1,29	1,29	1,07
Dividend yield	9,3%	11,5%	10,0%	8,8%
EPS (€)	1,02	1,06	1,08	1,06
Average market cap (€ m)	43,1	52,3	60,3	56,4
Average P/E	9,09	10,60	12,00	11,43





3. CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT

Rules of corporate governance in the Company are based on the relevant provisions of the Law on Business Organisations and the Company's Articles of Associations and other internal procedures fully adhered to by the Company.

Management and supervision over the organisation, operations, and control of the Company is carried out through the General Meeting of Shareholders, Board of Directors, Audit Committee, Executive Director, Secretary of the Company, Internal Audit and External Audit.

3.1 General Meeting of Shareholders

The General Meeting of Shareholders is the supreme body of the Company which is entitled to pass/amend the Articles of Association, elect and release members of the Board of Directors, appoint independent auditor, adopt annual Financial Statements, Auditor's Report and Annual Business Report, decide on the management of the Company's property whose value is higher than 20% of the book value of the Company's property (large value property), decide on remuneration for the members of the Board of Directors, decides on allocation of profit and distribution of dividend, decides on capital increase/decrease, and other issues as per the Law.

The role, responsibilities, participation, the ordinary or extraordinary quorum of participants, the Chairmanship, Agenda and the conduct of procedures of the General Meeting of the Company's Shareholders are described in its Articles of Association and Operating Procedure for the General Meeting of the Company's Shareholders.

During 2017, one (1) general meeting of shareholders was held, i.e. the Annual General Meeting which was held on 10th May 2017.

3.2 Board of Directors

The Board of Directors is the supreme executive body of the Company. The Board of Directors implements decisions of the General Meeting of Shareholders, it formulates the Company's development policy and strategy, and supervises and controls the management of the Company, it ensures system of internal control, it determines the organization of the Company, it makes investment decisions, it adopts annual business plans, appoints commissions and working bodies for execution of certain tasks.

The Board of Directors is comprised of seven (7) members who are elected by the General Meeting of Shareholders with a term of one (1) year.

Members of the Board of Directors are entitled to a remuneration for their work which is a fixed amount determined by the General Meeting of Shareholders. The Board of Directors elects the Chairman among its members.

The Chairman of the Board of Directors is authorised to: convene and chair the meetings of the Board of Directors, to monitor and ensure the implementation of the decisions of the Board of Directors, to perform activities pertaining to preparing the program and development strategy of the Company, to coordinate and implements business cooperation with domestic and foreign partners and international organisations, to provide prompt information on overall work and operation of the Company to the Board of Directors.

The role, responsibilities, the Chairmanship, Agenda and the conduct of procedures of the Board of Directors are described in the Articles of Association and Operating Procedure for the Board of Directors.

The Board of Directors structure during the year 2017 and as of December 31st 2017 was:

- Konstantinos Mademlis - Chairman of the BoD
- Dimitrios Gavriilidis - Member
- Stamatia Psyllaki - Member
- Dimitrios Parodos - Member
- Efsthathios Devves - Member
- Jelena Mrkobrada - Member
- Tripko Krgović * – Member

**owns 7.777 Jugopetrol shares*

Nine (9) meetings of the Board of Directors were held in 2017.

3.3 Audit Committee

The audit committee is appointed by the Board of Directors.

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the financial reporting process, internal control systems, the audit process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct.

The Audit Committee monitors the effectiveness of the risk management process in the Company, the effectiveness of the internal control systems in the Company, the corporate financial reporting of the Company, the Internal Audit Function of the Company, and the independent external Audit of the Company.

The Audit Committee is comprised of three (3) members.

Composition of the Company's Audit Committee in 2017 has been the following: Mr Gerasimos Stanitsas, Mr Dimitrios Parodos, and Mr Dimitrios Gavriilidis .

Three (3) meetings of the Audit Committee were held in 2017.

3.4 Internal Audit

The Independent Internal Audit Department, by means of periodic assessments, ensures that the identification procedures and risk management applied by Management are sufficient, that the Internal Control System operates effectively and that information provided to the CEO relative to the Internal Control System, is reliable and of adequate quality.

Internal Audit follows its recommendations (follow-up) to see whether they are implemented. The related conclusions are periodically (quarterly, semi-annually or yearly) communicated to CEO and the Audit Committee.

4. ORGANIZATIONAL STRUCTURE OF JUGOPETROL AD

4.1 Executive Director and Senior Management

Executive Director of the Company is appointed by the Board of Directors.

Role, rights and duties of the Executive Director are determined under the Law on Business Organizations and the Company's Articles of Association. Executive Director of the Company manages the day-to-day activities of the Company, by performing its operational management in accordance with the decisions of the Board of Directors and General Meeting of the Company, and overtakes all actions to comply with Business plan targets in accordance with responsibilities determined in the Articles of Association and with requests from the Board of Directors, internal rules and management policies defined by the latter, prepares and proposes business and development plans, submits proposals of internal organisation and Act of employee job positions, decides on employing new staff within the Company, in accordance with the plans and needs of the Company, concludes contracts in accordance with his authorities, forms working groups, teams of experts and commissions for execution of specified tasks.

In 2017, Senior Management team consisted of the following people:

Name & Last Name	Department	Since	Until	No. of shares
Antonis Semelides	CEO	8.3.2017	onwards	-
Andreas Triantopoulos	CEO	1.1.2015	7.3.2017	-
Radovan Raičević	Legal Affairs	20.6.2002	onwards	880
Veselin Gačević	Operations & Logistics	1.4.2014	onwards	533
Vlado Samardžić	Network Development	1.6.2013	onwards	737
Panagiotis Loukas	Finance & Administration	1.10.2015	onwards	-
Slobodanka Radulović	HR	1.11.2015	31.10.2017	-
Dragan Nikolić	Commercial	1.12.2016	onwards	-
Vesna Spaić	Company Secretary	1.4.2011	onwards	-

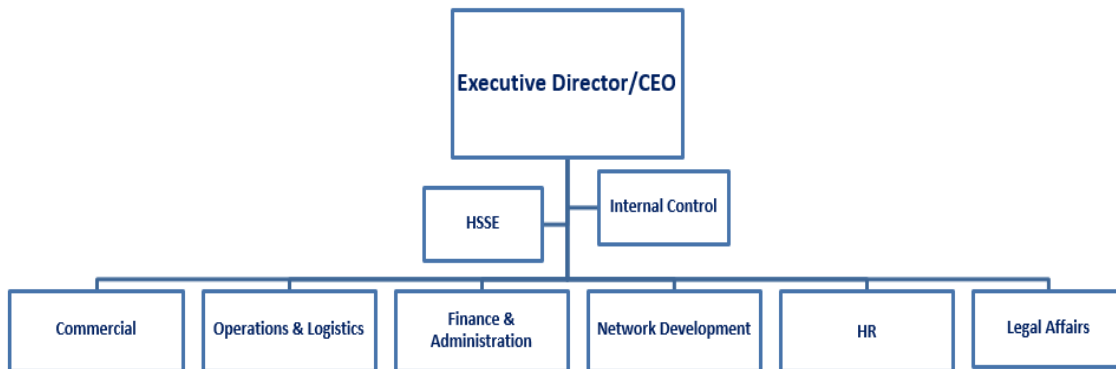
4.2 Administrative organization of the company - Organizational Chart

The organization structure of the company is based on three major pillars:

- The Commercial Department
- The Operations & Logistics Department
- The Finance and Administration Department

Aside from that, Jugopetrol AD has five additional departments: Legal affairs, Human resources, Internal control, Network development and HSSE.

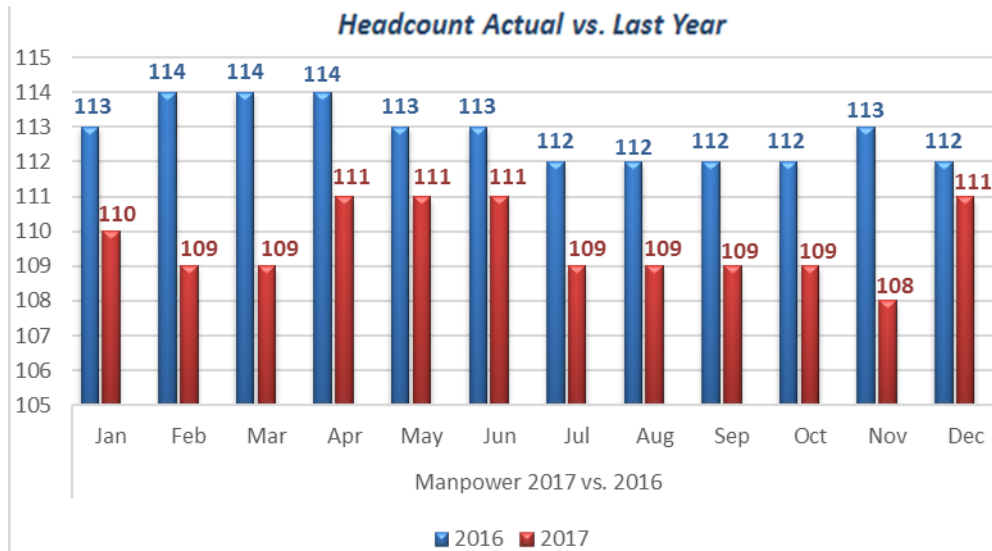
The Company is structured as follows:



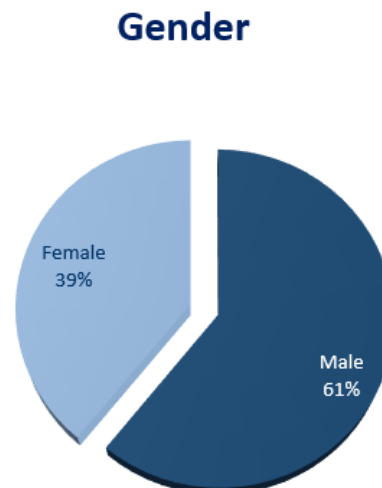
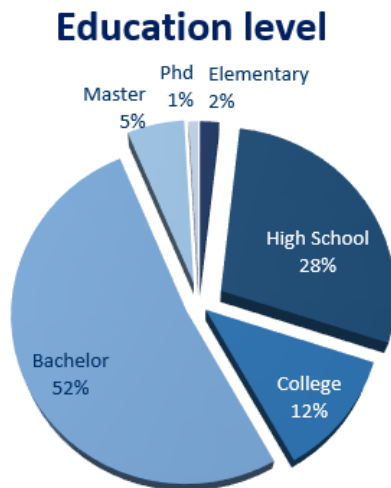
4.3 Personnel

As of 31 December 2017 the total staff employed by Jugopetrol AD amounts to 111. The number of employees is divided into:

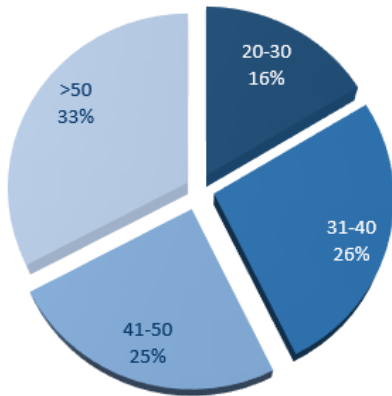
- Full time employees - 90
- Contracted employees – 21



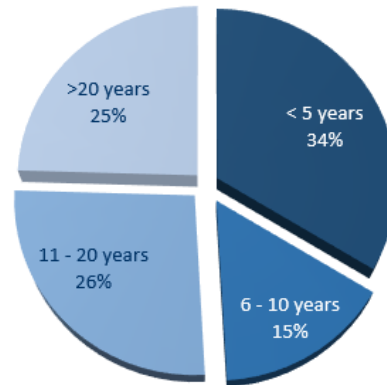
The structure of the personnel is presented in the following charts:



Age structure



Time with Jugopetrol (years)



5. MAJOR FIXED ASSETS OF JUGOPETROL AD

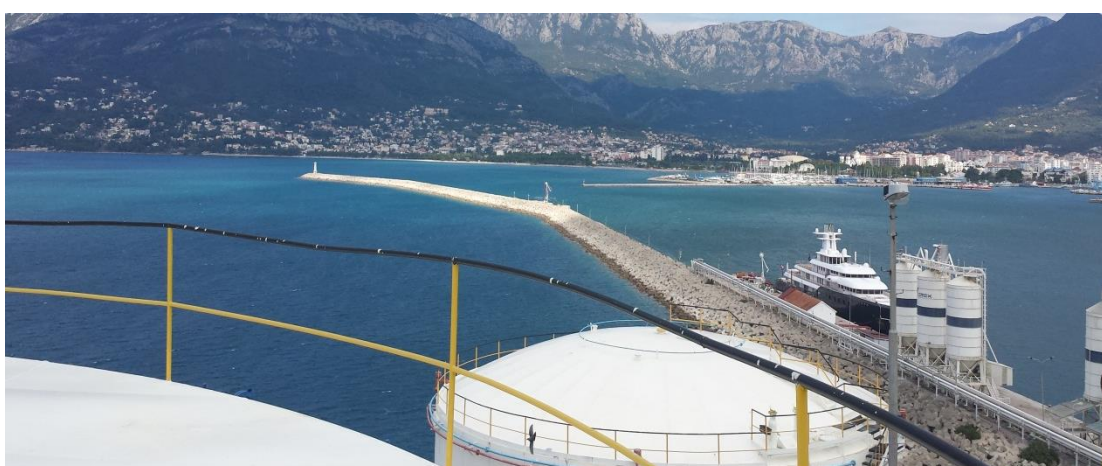
5.1 Bar Terminal

Storage terminal in Bar was built in 1966, and its capacity was extended twice, in 1974 and 1990. It is the largest terminal in the country, with port loading, truck and train loading capabilities. It has 20 tanks, with total capacity of 110.300 m³.



Its main activities include:

- Fuel receiving by ships (tankers) (from HELPE Installations)
- Possibility to receive the fuel by wagons and trucks
- Storage facilities
- Fuel deliveries:
 - By trucks,
 - By wagons,
 - Bunkering.





5.2 Air services

5.2.1 Air service Tivat

Air Service Tivat is located at Tivat Airport, one of the main airports in the region. Its main activities are fuel receiving by truck (from Bar Terminal), storage and plane refueling. Products supplied are JET A-1 and Avio gas 100 LL.

It also has an internal petrol station (Unleaded 95 and Euro diesel) for own trucks and airport's special vehicles.



5.2.2 Air service Podgorica

Air Service Podgorica is located at Podgorica airport in Golubovci, Podgorica, the capital of Montenegro. Its main activities are fuel receiving by truck (from Bar Terminal), storage and plane refueling. Products supplied are JET A-1 and Avio gas 100 LL.

It also has an internal petrol station (Euro diesel) for own trucks and airport's special vehicles.

5.3 Fuels transport unit

In order to effectively meet the needs of petrol stations and wholesale customers, Jugopetrol AD owns a fleet of tank trucks for transportation of fuels, unloading of fuel in underground or above-ground tanks, by pump or gravity flow, through unloading hoses of various diameters and coupling types, and equipped with volumeters for measuring the fuel quantity, all depending on the technical characteristics of the site for unloading or specific requirements of each individual customer. Volumeters are officially calibrated by the National Institute for Metrology.

Each individual vehicle is properly registered, owns ADR certification for the transport of dangerous goods, as well as the license for the commercial transportation of petroleum products issued by the Energy Regulatory Agency.



5.4 HQ Building

In December 2014, Jugopetrol AD moved into a new head quarter building in Podgorica. The building is located near the city downtown, on the watersides of Morača river. It was built by local construction company "Neksan", as one of the two adjacent buildings, with other building being occupied by "Universal Capital Bank". The building has ground floor, 4 floors, 1 underground floor and an underground garage. Jugopetrol owns floors 2, 3 and 4.



Net area of the floors is approximately 410 m², so total area owned by Jugopetrol amounts to approximately 1.230 m².

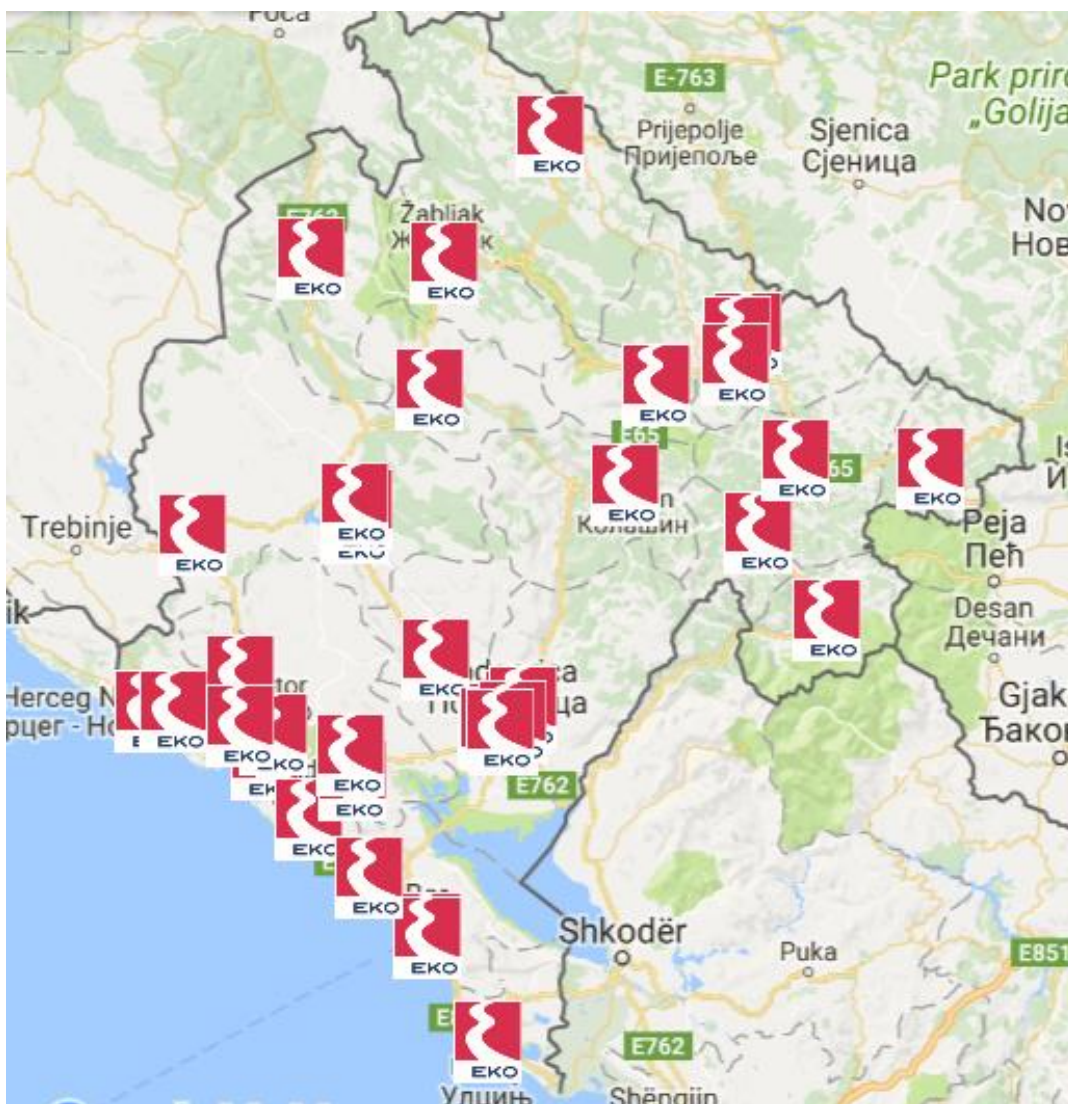
Office area consists of offices for managerial personnel, open space offices and multimedia meeting rooms. Each floor is equipped with a kitchen, to allow for convenience of personnel. LED lighting is installed within building, with systems for occupancy detection and automatic adjustment of lighting level, depending on daylight available.

5.5 Petrol Stations

Jugopetrol Retail Network consist of 40 Petrol Stations and 3 Yachting Services, covering the entire country.

Retail network is COMO operated and is divided into 3 regions: South, Central and North.

Sales in Central region are mostly stable during the year, while North and especially South region show higher seasonality (sales achieved during summer are much higher because of tourism).





PS Bijelo Polje 2

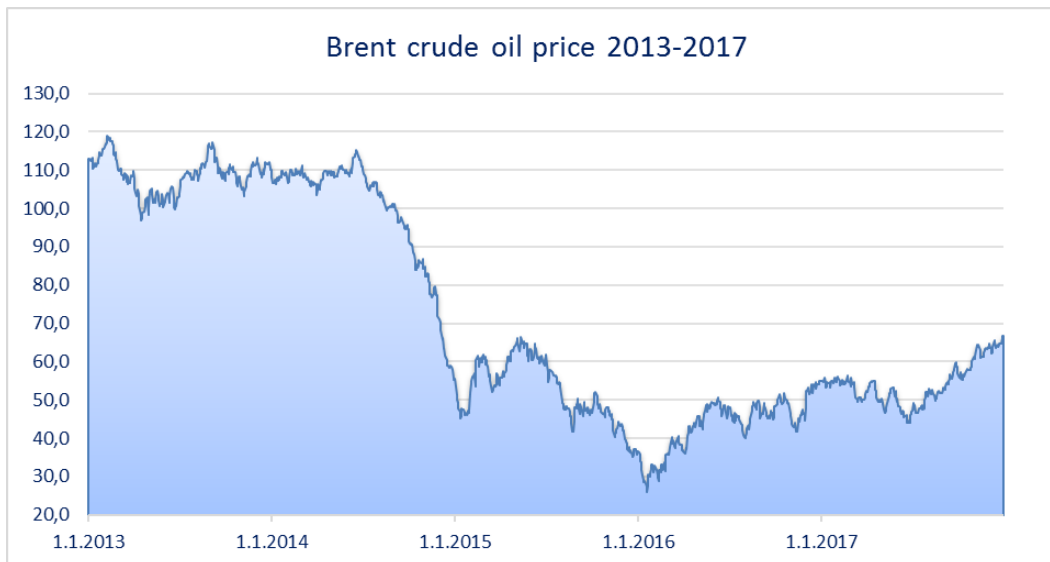


PS Podgorica 10

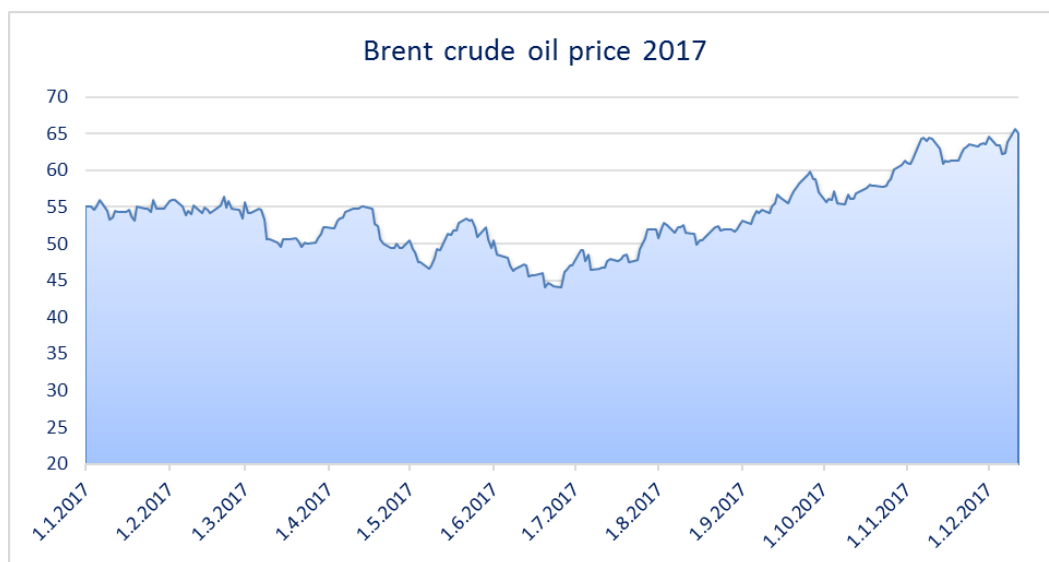
6. BUSINESS ENVIRONMENT

6.1 Global economic data

6.1.1 Oil prices



Over the last three years, the oil industry has experienced its deepest downturn since the 1990s. In early 2016, oil price bottomed out at below \$30 and recovered to over \$50 by the end of the year.



In 2017, we witnessed a highly volatile oil market. The price of Brent decreased significantly in the first part of the year and reached a bottom of \$45/bbl because of the increase in supply led by the US, whose production reached a one-year high.

Since July, we've seen the reversal of the negative trend led by the higher demand and geopolitical tension. Ultimately, oil prices continued the recovery and reached the year-high of over \$65/bbl in December.

6.2 Montenegro macro environment

Montenegro's economy continues to grow at a moderate pace, and growth is expected to continue over the medium term, boosted by the implementation of large investment projects, including the construction of the Bar-Boljare highway. IMF projects the economy to expand by 3% in 2017 and 2,75% in 2018, with planned fiscal consolidation acting as a moderate drag on growth.

While the implementation of large publicly financed infrastructure projects will add to economic growth, the accompanying use of fiscal resources has contributed to a large increase in government debt, which reached 78% of GDP in 2016. Large refinancing needs in coming years are also a source of fiscal vulnerability.

Recognizing the need to reduce public debt, the government has embarked on a path of fiscal consolidation, beginning in the 2017 budget. Subsequently, the government announced in June 2017 a medium-term fiscal consolidation strategy that, if implemented, would considerably strengthen the fiscal position. IMF estimates that the government's fiscal measures would raise the primary fiscal surplus to 4,5% of GDP by 2020, allowing government debt to fall to 66% of GDP by 2020.

Conditions in the banking sector continue to strengthen, with improving asset quality and recovering credit growth. Non-performing loans, however, remain elevated, and the sector appears to be over-banked, presenting a challenge for bank profitability.

The lack of an independent currency and declining fiscal space constrain Montenegro's ability to absorb shocks, which underscores the need for an improvement in economic flexibility to sustain growth over the long run.

Low labor productivity and employment levels and a large informal sector limit potential growth. The government's plans to reform labor laws provide an opportunity to improve the flexibility of labor market outcomes, boost participation rates, and reduce informality.

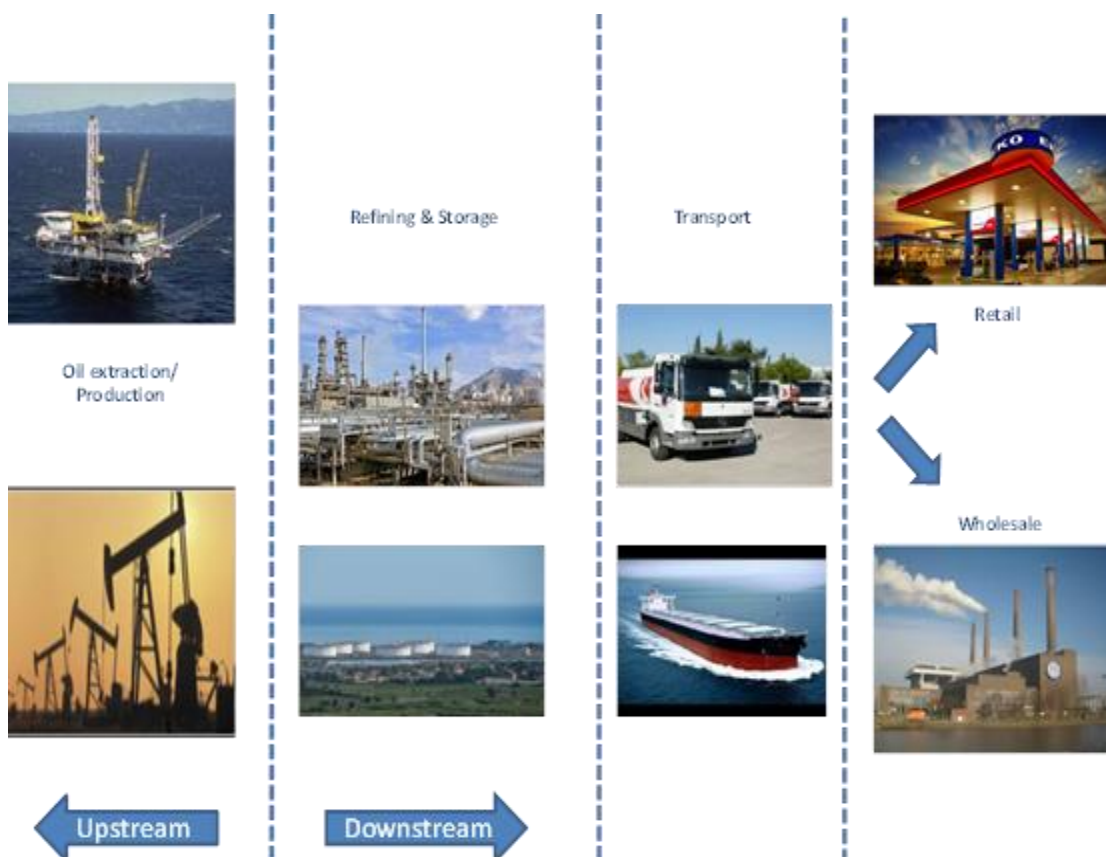
Macroeconomic Data	2016A	2017P	2018P	2019P	2020P	2021P	2022P
Real GDP Growth	2,5%	3,0%	2,8%	2,7%	2,2%	3,0%	3,1%
Inflation Rate	-0,3%	2,1%	2,6%	1,8%	1,7%	1,8%	1,9%
Unemployment Rate	17,7%	17,8%	17,5%	n/a	n/a	n/a	n/a
General government gross debt	70,0	71,6	73,6	74,1	69,5	64,4	59,7
General government debt balance	-6,0%	-6,4%	-5,6%	-4,9%	1,9%	1,9%	1,9%
Current account balance	-19,0	-20,2	-21,2	-19,7	-13,7	-14,1	-14,0
Foreign direct investment	9,8	10,3	10,4	10,4	10,5	10,3	10,2

Source: IMF Statement, September 2017

6.3 General description of the fuel market in Montenegro

The fuels sector channels in Montenegro include sales to the end consumer or wholesale customers including commercial and industrial customers (C&I), and also includes sales to aviation and bunkering channels.

In the diagram below the oil cycle from extraction to distribution and sale to end users is presented :



6.4 Legislative framework

The sector of petroleum products is governed by the following laws and regulations:

- Energy Law,
- Air Protection Law,
- General Product Safety Law,
- Inspection Law,
- Decree on the method of maximum retail prices of petroleum products,
- Regulation on limited values of pollutants in liquid fuels of petroleum origin.

Product Quality Control

The quality of petroleum products that can be placed on the market “Rulebook on quality and quality control of liquid fuels of petroleum origin” and national standards for automotive fuels, MEST EN 228 for gasoline and MEST EN 590 for diesel. In addition, this Regulation governs the planning and implementation of programs for monitoring the quality of petroleum products at petrol stations, which is developed based on the standards EN 14274. The program includes:

- Methodology for program development (MEST EN 14274 – Annex D),
- The method of sampling, the number and the frequency of fuel sampling at gas stations (MEST EN 14275)
- The method of sampling, the number and frequency of sampling of diesel fuel from the storage (MEST EN ISO 3170)

Sampling and laboratory analysis is performed by an authorized legal entity, accredited according to MEST ISO / IEC 17025 standard.

Regulation of the Sector

In accordance with the Energy Law, RAE has passed the Rules about licenses in the energy sector of Montenegro. With this regulation, in the field of oil and gas, RAE has shared the three types of licenses (the periods of validity of licenses included in brackets), for:

- Commercial transport of petroleum products and gas (10 years),
- Storage and distribution of petroleum products and gas (15 years)
- Sale and supply of petroleum products and gas (8 years).

According to ZoE, the subject of regulation in the oil and gas sector are wholesale trade and retail trade, supplying the end-customer, storage and transportation of petroleum products and LPG.

A large number of licensees for a given activity reflects the high level of interest of market participants, what is a prerequisite for competition in the sector. With an exception of Montenegro Bonus doo Cetinje, virtually all other companies are privately owned.

7. BUSINESS ACTIVITIES OF JUGOPETROL AD

7.1 Fuel quality assurance

Jugopetrol AD is supplied exclusively from the refineries of Hellenic Petroleum in Greece, that produce latest generation of automotive and aviation fuels, ensuring smooth and efficient operation of modern engines and minimum emissions.

Fuels from refinery are transported to Bar terminal by environmentally friendly double-skin tankers, thus minimizing possibility of ecological accidents.

Each delivery from refinery is labelled with the unique batch number, thus enabling Jugopetrol to follow and monitor fuel quality in all phases of fuel receipt, storage and distribution.

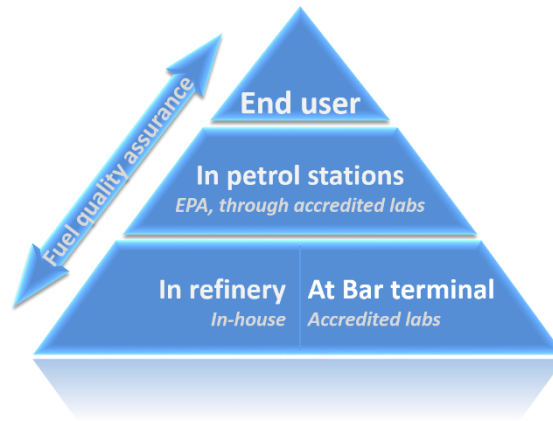
Monitoring of fuel quality starts in refinery, and appropriate quality certificate follows fuel loaded into tanker. Upon tanker's arrival to Bar Terminal, fuel is sampled and analyzed in local laboratory of "Jugoinspekt Control" in Bar, and tanker unloading commences only after analysis confirms that fuel quality matches the one specified in refinery certificate.

Fuel quality is checked again in shore tanks at Bar terminal after unloading, and distribution of fuel to end customers is allowed only after it passes quality analysis in accredited laboratory. Analyses are done in laboratories of "Institute for Transport" in Podgorica and "Jugoinspekt" in Belgrade, both accredited as ISO/IEC 17025 control laboratory by respective Accreditation bodies of Montenegro and Serbia.

Based on these analyses, fuel quality certificate is issued, which follows each delivery of the fuel, providing a proof that our fuel conforms to the appropriate national standards, MEST EN 590 for diesel fuels and MEST EN 228 for gasolines.

Monitoring of fuel quality continues to end users in petrol stations, where monitoring of fuel quality is officially regulated according to Montenegrin "Law on air quality protection" (Official Gazette of Montenegro, 43/15), and conducted by Environmental Protection Agency (EPA), based on annual "Program of fuel quality monitoring", which includes all petrol stations and Terminals in Montenegro.

In addition, Jugopetrol takes random samples in all stages of fuel distribution, to ensure that product maintains the same high quality until it reaches end consumers.



Fuel properties determined in laboratory are following:

Diesel:

- Density,
- Viscosity,
- Sulphur content,
- Flash point,
- Cold filter plugging point,
- Atmospheric distillation properties,
- Water content,
- Cetane number and cetane index,
- Copper strip corrosion,
- Content of various hydrocarbons.

Gasoline:

- Density,
- Octane number,
- Sulphur content,
- Vapour pressure and lock index,
- Atmospheric distillation properties,
- Water content,
- Content of various hydrocarbons and oxygenates.

7.2 Fuels supplied by the Company to the domestic market

Jugopetrol AD, a subsidiary of Hellenic Petroleum Group, operates in domestic and international market of oil products, which are produced by the three Hellenic Petroleum Group refineries (Aspropyrgos, Elefsina, Thessaloniki).

Jugopetrol AD supplies the domestic market with fuel and lubricant products through retail and wholesale sales, as follows:

7.3 Retail fuel sales

Fuel sales in the domestic market include sales made through COMO (company owned manager operated) petrol stations.

Petroleum products include:

- Gasoline
 - Gasoline unleaded 95
 - Gasoline unleaded 98
- Diesel
- LPG

Gasoline

Gasoline unleaded 95 and unleaded 98 are sold under the brand name gasoline Eurosuper 95EKONOMY and Eurosuper 98. The main advantages of these fuels are:

- improved performance.
- protect the engine from wear, reducing friction
- more environment friendly (lower emission)
- increase fuel economy by 4%.

Diesel

Commercially marketed under the trade name Aviodizel. It is a differentiated fuel that combines greater and higher performance. The Aviodiesel:

- specially treated with filters developed for aviation in order to eliminate the slightest impurities,
- increases engine efficiency,
- directly reduces the noise of the machine,
- provides excellent corrosion protection for all engine types,
- prevents the formation of deposits on injectors,
- reduces emissions of nitrogen oxides and unburned particles,
- reduces maintenance costs and ensures a longer life for the engine

LPG

It is a mixture of propane and butane, distributed in bulk as a motor fuel (autogas) or bottled. It is used as boiler fuel heating (for example in factories, hotels, households, etc.), as well as fuel for internal combustion engines. The target density is 0,57 gr/ cm³.

7.4 Wholesale fuel sales

Wholesale fuel sales on the domestic market include sales to Commercial & Industry (C&I), Private Petrol Stations (PPS), Aviation and Marine.

C&I

This segment covers the needs for petroleum products of all Commercial and Industry customers in the country.

The products available are:

- Gasolines
- Diesel
- Heating diesel
- Gasoil
- JET-A1

Jugopetrol AD is the first choice for fuel in the C&I segment with consistency and reliability that characterizes the largest fuel company in the Montenegro market.

Knowing the customer needs for many years, Jugopetrol AD can ensure the quantity and quality of products delivered, the speed of loading and the technical excellence of the offered solutions.

Marine

Two types of fuel are sold in Marine segment:

- Gas Oil, marine oil with a sulfur content up to 0,1%. Intended for use on small boats, speedboats and larger vessels, and
- Diesel, which is the most widely used fuel in this segment in Montenegro.



Aviation

Jugopetrol AD supplies customers in both Montenegro airports (Podgorica and Tivat). It is the sole supplier of Aviation segment in Montenegro. The product supplied is the JET-A1, which complies with the latest requirements of Aviation Fuel Quality Requirements for Jointly Operated Systems (AFQRJOS) of the Joint Inspection Group (JIG). This fuel is produced under strict and controlled specifications and is handled at airports by specialist suppliers (into-plane providers). The target density of this fuels is 0,8 gr / cm³.



7.5 Non-fuel Retail, NFR

Other than fuel, Jugopetrol AD also sell other products at its petrol stations in order to:

- Better serve customer needs
- attract more customers to the petrol stations



The main categories of products traded in the shops are: café, snacks, cigarettes, food, lubricants and bottled LPG. There is also a car wash at selected stations.

Contribution to total revenue is relatively small because there is a lot of competition from other forms of mini markets.

7.6 Commercial Pricing Policy

7.6.1 Oil pricing policies in General

Crude oil and fuel products trading can take place in physical markets (physical / spot markets) as well as in international stock markets (financial / paper markets) with prices formed daily according to the rules of supply and demand. The physical markets serve the delivery of physical quantities through bilateral delivery contracts. Stock markets serve the collection and delivery of goods in the future through standardized futures (forward, future contracts). Only 1-3% of these contracts result in physical delivery, the rest are sold before maturity. Prices on the stock markets are linked to the prices of contracts in the physical markets.

Benchmark prices of petroleum products are used which are published in "Platt's European Market scan". These are the prices of actual transactions of the day, for a certain number of crude oil and fuels categories (with specific specifications and cargo sizes), by geographical area and by type of contract (FOB or CIF):

- FOB (Free on Board): free on board, selling price of the product at the named port of shipment
- CIF (Cost Insurance & Freight): Includes FOB price + the insurance for product transport, as well as transport of the product at the assigned port for discharge

$$\text{CIF Product} = \text{FOB Product} + \text{insurance cost} + \text{transport cost}$$

7.6.2 Pricing policy of Jugopetrol AD

Retail fuel prices in Montenegro are regulated by Government decree, which means that maximum prices and margins are fixed by Decree.

Retail Pricing

The maximum retail price ("MR") is determined by the following formula ("formula price") and will result in a maximum retail price for each petroleum product expressed in € / lit.

$$MR = (X1 * X2 * D) + X3 + X4, \text{ €/lit}$$

X1 = the average of prices of petroleum products published in "Platt's European market scan", based on the quotation for the CIF Mediterranean parity Genova / Lavera for a period of 14 calendar days immediately prior to Monday plus a fixed market premium.

X2 = the average of exchange rates expressed in € / US \$ published by the Central Bank of Montenegro, for the previously mentioned period of 14 calendar days immediately prior to Monday.

D = density conversion, which converts tonnes to liters.

X3 = total taxes that include import taxes and duties (including port tax), excise tax and all other taxes under the laws of Montenegro.

X4 = Fixed amount in € / lit, which includes the following:

- internationally recognized maximum loss of 0,5%;
- the costs of import, shipment, handling, and commission of the bank;
- storage, transport, distribution costs;
- retail costs; and
- the gross margin for the oil company.

The calculation is made on every other Monday or the following day if Monday is not a working day. If any element of the price formula X1, X2, X3 or X4, or their total sum is 5% or more (i.e., ± 5% or more) higher or lower than their currently prevailing values, the new maximum retail price calculated will be applied.

Wholesale pricing

Wholesale prices are based on maximum retail prices, with additional discounts applied to the base price, depending both on a wholesale channel, customer and the collaterals.

The factors which influence the discount are the terms of delivery (agreed with the customer), terms of payment (agreed with the customer), collaterals offered by credit customers, quantity of the product sold (referring to the last delivery as well as to the monthly or to the annual consumption), future opportunities for business expansion with a certain customer, possibilities for increase of the volumes sold to him and competition.

7.7 Suppliers of Petroleum products – Supply Chain

Jugopetrol AD gets fuel products mainly from refineries of Hellenic Petroleum. Fuel is received by ships in Bar installation, in the south of Montenegro. The supply of oil products includes:

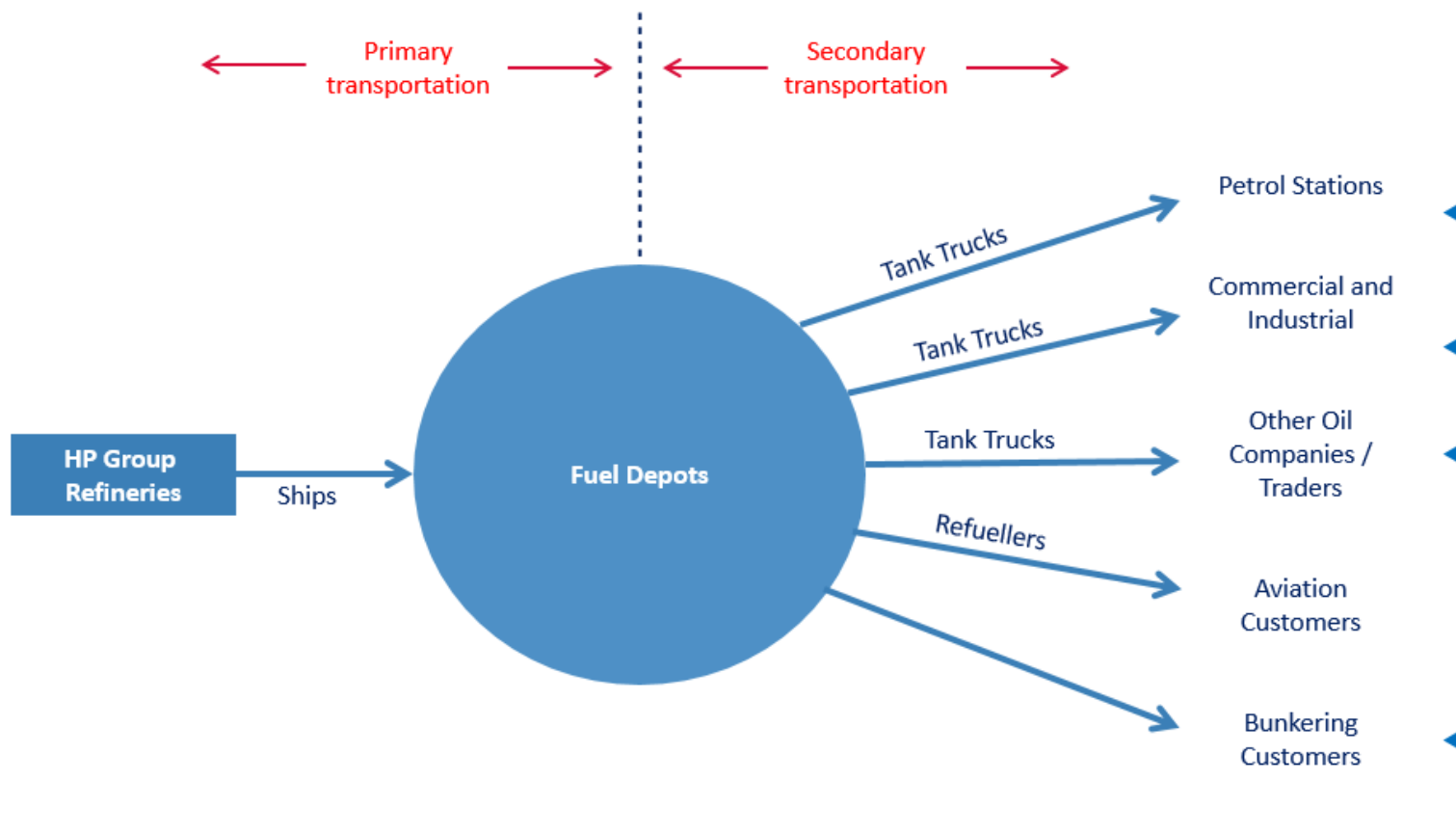
- The primary transport, namely the supply of petroleum products from the refineries or imports to installations of oil companies (by ships in case of Jugopetrol AD)
- The secondary transport, the transfer of petroleum products from the premises of companies to petrol stations and wholesale customers (C&I, PPS, Aviation and Marine fuels).

Market is highly competitive, there is competition from regional oil companies (INA, Lukoil and Petrol).

An overview of Jugopetrol's supply chain chart is presented on the next page.



The Supply Chain of Jugopetrol AD

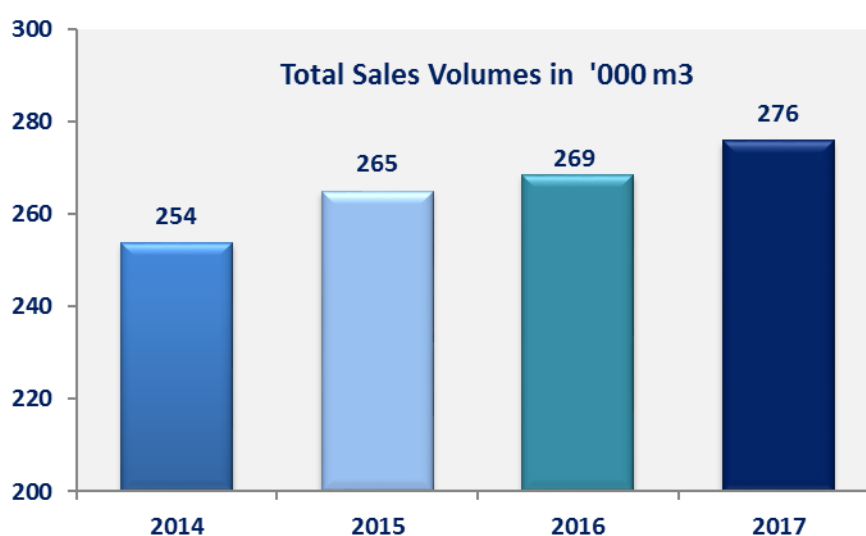


8. JUGOPETROL AD SALES QUANTITIES

8.1 Total fuel sales

Fuel market can be split into Retail and Wholesale segments. Furthermore, Wholesale segment sales can be split in several categories, as following: Aviation, Bunkering, sales to commercial customers and industry (C&I) and sales to competitors petrol stations (PPS).

Total fuel sales have been constantly growing in the past 4 years, as shown in the below chart:



2017 has been a record year regarding volumes, with the following split in segments:



8.2 Retail Market

Retail fuel sales on the domestic market include sales made through network of 40 COMO petrol stations and 3 yachting services. The relative volumes of these sales are presented in the following table.

Retail Sales Volumes in '000 m3	2014	2015	2016	2017
Unleaded 98	6	5	5	5
Unleaded 95	25	23	22	20
EKO Diesel	82	85	93	92
LPG	5	4	4	4
Heating Diesel	-	-	-	-
Jet A-1	-	-	-	-
Total	118	118	124	121

Retail volumes were -3% lower than last year, but still showed a positive trend compared to 2014 and 2015. The main influencing factors of the decline in 2017 compared to 2016 were the following:

- Reduced market demand due to increase in excise rates by 0,09 €/LT+VAT as of January 10th, 2017, which increased the cost to drivers.
- Road closures which particularly affected sales in central region (in the period from Jan to May, and starting from September 20th).
- Closures of several petrol stations due to reconstructions.
- New petrol stations build by competitors over the last four years.

Diesel is still by far the most dominant product, with more than 75% of the total retail demand, as shown in the chart below:



8.3 Wholesale Market

Wholesale fuel sales on the domestic market include sales to commercial & industry customers, aviation, bunkering, as well as private petrol stations (competitors). The relative volumes of these sales per product are presented in the following table.

Wholesale Sales Volumes in '000 m3	2014	2015	2016	2017
Unleaded 98	2	2	2	2
Unleaded 95	12	13	12	11
EKO Diesel	74	86	88	87
Heating Diesel	13	14	11	14
Jet A-1	34	32	31	42
LPG	-	-	-	-
Total	136	147	144	155

Wholesale volumes were +7% higher than last year, with most of the increase coming from Aviation sales, which increased +34% compared to last year. Constant increase in sales started in March and continued throughout the period, due to incoming flights, but also due to buying patterns of key airlines.



9. FINANCIAL STATEMENTS AND KEY RATIOS

9.1 Profit & Loss Statement

Profit & Loss Statement	YEAR 2017	YEAR 2016
REVENUES	135.143.076	115.973.048
Sales revenue	134.892.587	115.715.158
Other operating income	250.489	257.890
EXPENSES	127.060.424	108.767.196
Cost of goods sold	111.562.585	93.544.435
Cost of materials	657.496	557.862
Cost of salaries and other personal expenses	3.458.329	3.662.250
Cost of depreciation and provisions	2.331.633	2.538.095
Other operating expenses	9.050.381	8.464.554
OPERATING PROFIT	8.082.652	7.205.852
Financial income	220.019	234.280
Financial expenses	45.299	66.776
FINANCIAL RESULT	174.720	167.504
Other income	896.815	1.220.774
Other expenses	724.598	3.087.785
RESULT FROM OTHER BUSINESS ACTIVITIES	172.217	(1.867.011)
NET RESULT BEFORE TAX	8.429.589	5.506.345
OTHER COMPREHENSIVE INCOME	(23.482)	25.864
Fair value of AFS financial assets	(10.071)	(10.111)
Revaluation reserves from actuarial gains /(losses)	(13.411)	35.976
INCOME TAX EXPENSE	775.976	503.834
Current income tax		
	775.355	503.546
Deferred income tax	621	287
PROFIT FOR THE YEAR	7.630.130	5.028.376
EARNINGS PER SHARE		
Basic earning per share	1,64	1,08

9.2 Balance Sheet

Balance Sheet	YEAR 2017	YEAR 2016 (restated)
NON CURRENT ASSETS	43.096.678	41.588.541
INTANGIBLE ASSETS	6.212.630	6.232.585
PROPERTY, PLANT & EQUIPMENT	35.171.384	33.586.940
Property, Plant & Equipment	33.537.425	31.940.480
Investment properties	1.633.959	1.646.460
LONG TERM FINANCIAL ASSETS	1.712.664	1.769.016
Investments in equity	67.057	78.124
Other long term financial assets	1.645.607	1.690.892
DEFERRED TAX ASSETS		
CURRENT ASSETS	60.812.769	57.520.095
INVENTORIES	26.606.358	24.586.385
RECEIVABLES, S.T. DEPOSITS AND CASH	34.206.411	32.933.710
Receivables	11.381.169	10.997.165
Short term deposits	152.177	319.037
Cash and cash equivalents	16.190.061	14.581.969
Value added tax and accruals	6.483.004	7.035.539
TOTAL ASSETS	103.909.447	99.108.636
EQUITY	89.453.785	86.826.672
Share capital	67.986.605	67.986.605
Reserves	8.550.698	8.550.698
Revaluation reserves	(186.385)	(162.903)
Retained earnings	13.102.867	10.452.272
PROVISIONS AND LONG TERM LIABILITIES	383.094	388.704
PROVISIONS	383.094	388.704
LONG TERM LIABILITIES	0	0
Other long term liabilities	-	-
DEFERRED TAX LIABILITIES	57.226	57.601
SHORT TERM PROVISIONS AND LIABILITIES	14.015.342	11.835.659
SHORT TERM LIABILITIES	14.015.342	11.835.659
Trade payables	3.131.675	3.202.250
Other short term liabilities and accruals	2.381.702	687.518
Value added tax and other tax payables	7.726.610	7.442.345
Income tax payables	775.355	503.546
TOTAL EQUITY AND LIABILITIES	103.909.447	99.108.636

9.3 Adjustment of comparatives

As part of their periodic review of asset values, during the year, management reassessed the value of land in Kolasin which was previously valued at cost. To this effect a valuation was carried out whereby it was determined that the current value of this land was less than its carrying value by an amount of € 2.688.592. It was considered that the indicators of this reduction in value existed from periods prior to 1 January 2016 and that it should be recognised as an impairment in the financial statements as of then.

The above change has no impact on the net profit for 2017. The effect on retained earnings of this change as of 1 January 2016 and 31 December 2016 is presented below:

	Retained earnings
Retained earnings in the financial statements of the Company for 2015	14.325.311
Impairment of land	(2.688.592)
Balance 1 January 2016 restated	11.636.719
Retained earnings in the financial statements of the Company for 2016	13.140.864
Impairment of land	(2.688.592)
Balance 31 December 2016 restated	10.452.272

9.4 Financial Ratios

Profitability has been growing constantly, with net profit margin doubling from 2014, as a result of successful transformation and improved efficiency. Return on capital employed improved likewise, which means the company is improving its utilization of resources.

Profitability	YEAR 2017	YEAR 2016	YEAR 2015	YEAR 2014
Net Profit Margin %	5,6%	4,3%	3,6%	2,7%
EBITDA Margin %	7,8%	6,8%	5,8%	4,7%
Gross Profit Margin %	17,4%	19,3%	15,6%	12,7%
ROCE	9,2%	6,1%	6,1%	5,5%

Liquidity has been at a very high level at all times. High values of liquidity ratios mean that the company has consistently been able to meet its short term liabilities without any issues. This is further strengthened by the fact that the company had over 16m of cash and cash equivalents at the end of 2017.

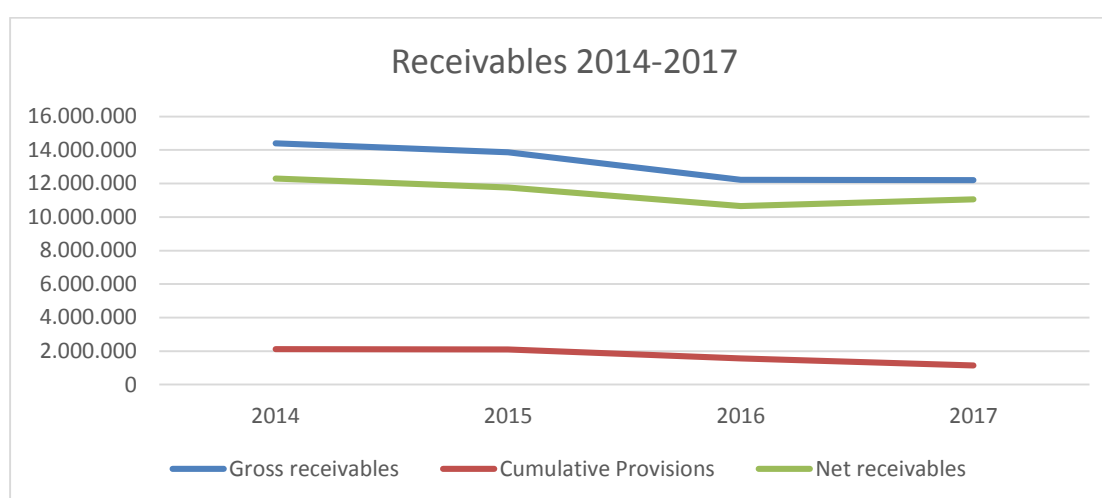
Liquidity	YEAR 2017	YEAR 2016	YEAR 2015	YEAR 2014
Current ratio	4,3	4,9	5,1	5,2
Quick ratio	2,4	2,8	2,5	2,7
Cash ratio	1,2	1,2	0,9	1,1

Jugopetrol has an extremely strong financial position emphasized by its low gearing ratio and the fact that it doesn't have any long term debt. The debt ratio is calculated as total liabilities divided by total assets, while debt/equity ratio is calculated as total liabilities divided by equity.

Solvency	YEAR 2017	YEAR 2016	YEAR 2015	YEAR 2014
Debt ratio	13,9%	12,4%	11,6%	11,0%
Debt / Equity %	16,2%	14,1%	13,1%	12,4%
LT Debt / Equity %	0,0%	0,0%	0,0%	0,0%

As a result of continued efforts from Sales and Credit Control Departments the trade receivables and overdue receivables are reduced and kept at low level.

Trade receivables	YEAR 2017	YEAR 2016	YEAR 2015	YEAR 2014
Up to 6 months	12.145.616	11.942.100	10.215.243	11.011.319
More than 6 months	2.262.991	1.916.763	2.001.894	1.190.615
Gross receivables	14.408.607	13.858.863	12.217.137	12.201.934
Cumulative Provisions	2.114.694	2.097.497	1.554.141	1.137.951
Net receivables	12.293.913	11.761.366	10.662.996	11.063.983



9.5 Tax contributions

Jugopetrol is a main contributor to the Montenegro State budget. In 2017 a total of EUR 101 milion was paid in terms of Excise and Income tax alone.

	2014	2015	2016	2017
Excise	74.221.395	79.610.284	82.365.139	100.645.115
Income tax	317.189	465.907	468.486	473.333
Total:	74.538.584	80.076.190	82.833.625	101.118.448

9.6 Business achievements in the 2017

During 2017 JUGOPETROL continued to realize its strategic vision of being the leading petroleum company in Montenegro, despite being faced with increasing competition and a flat fuel market in Montenegro.

Main achievements for the year include:

- Strong sales volumes and profitability
- Defended market share despite increased competition through targeted sales activities.
- Achieved a marked improvement in Trade Receivables with Overdues reduced to record low levels.
- Commenced a major reconstruction / refurbishment project on the majority our the network of petrol stations in order to modernize, adapt to increasing compliance requirements and improve customer satisfaction.



10. FUTURE PLANS AND PROJECTS

10.1 Overview of Business Strategy

Jugopetrol is the only fuel company in Montenegro offering a full coverage of the country including all major cities and key transit routes. Aiming to continuously improve its offering to the public and customer satisfaction, the company is always looking to expand its network of petrol stations. This may be achieved through acquisition of existing petrol stations owned by other companies or private individuals and by greenfield constructions in areas where there is increased demand.

Such an approach to network development and expansion allows Jugopetrol to have a diversity of petrol stations adapted to customers' needs in specific locations – from small stations in towns and suburban areas to state-of-the-art stations in city centers and along the busy roads, followed by accompanying services such as shop with wide spectrum of products and car wash service.

In 2018, Jugopetrol will continue with this approach to network development, further expanding in selected areas that were recognized as locations of strategic importance. We will also complete the implementation of the new Retail Visual Identity (RVI) which started in 2017 while also investing heavily in the existing network making it more appealing to customers and strengthening our sales.

Jugopetrol plans to further improve its customer experience by focusing on customer service through continuous and upgraded training of the sales people both at the petrol stations and the headquarters.

As a company that is known for its innovative approach to the market, Jugopetrol is constantly trying to give their customers more for their money through the product portfolio on both fuel and non fuel segments.

Jugopetrol is interested in all forms of energy and will be actively investigating opportunities in the renewable sources sector.

10.2 Project Elephant

Project Elephant is a project that involves the reconstruction of the majority of Jugopetrols stations in order to upgrade them and to ensure they meet the increasing compliance requirements. This includes all new legal requirements in line with both local and EU standards and includes stage 1 & 2 vapour recovery terms that will come into force from 2020.

After an elaborate planning phase, a tendering process was completed and construction phase commenced in March 2017. Three stations have been completed and are back in operation while four more stations are under construction and the rest in various phases of planning, designing and permitting.

PS Niksic 1 – Before and After reconstruction

Before:



After:



PS Ribarevina – Before and After reconstruction

Before:



After:



11. RESEARCH AND DEVELOPMENT

11.1 Operations and efficiency improvements

11.1.1 Petrol stations

Jugopetrol AD is committed to implementation of modern technologies and constantly search for most efficient methods of operations. All reconstructed petrol stations have LED lighting, both indoor and outdoor, and new red-white RVI signage also runs on LED technology. Thus, Jugopetrol significantly reduces energy consumption and harmful emissions.

Jugopetrol plans to install a charger for electric vehicles in one petrol station in 2018, and two more in 2019. There are no such devices in Montenegro, and Jugopetrol aims to pioneer facilitation of electric vehicles usage.



PS Podgorica 9

11.1.2 Bar terminal

In 2017, a brand new control room at Bar Terminal was designed and constructed. Control room will facilitate terminal staff to overview, monitor and control all major processes at Terminal.

So far, Control Room includes two SCADA systems (Supervisory Control and Data Acquisition); one of them operates TLGS and MOVs, and other one operates firefighting system. TLGS (tank level gauging system) allows operators to monitor fuel stocks within tanks in real time, while MOV (motor-operated valves) enables staff to remotely interact with tank valves.

These two systems combined together give operators ability for remote control of fuel receipt, storage and distribution in a more efficient, faster and safer way.



As part of this project, almost 2 km of new fiber optical cable has been laid throughout Terminal, so entire communication within Terminal is done through 3 hours fire resistant optical cables, and 10 new video surveillance cameras were installed. At this time, total of 22 cameras cover entire Terminal, and all of them can be monitored from control room, through 4 large LED displays.

Construction of new data center was completed in Q1 2018. Data center will facilitate all existing IT systems, and will allow for planned expansion in the near future, for new truck loading station.

Construction of new truck loading island is also planned in the near future. Scope of this project is brand new truck loading island that will feature bottom loading, mandatory by Law starting from January 2020.

Another project that is in progress is reconstruction of storage tank Jet A-1. Project, planned to complete in Q2 2018, aims to increase storage space for Jet A-1, and allow easier and safer supply and delivery of Jet A-1. Reconstruction included replacement of bottom plates, construction of cone down bottom, dewatering system and floating suction, all aligned with latest JIG standards (Joint Inspection Group for aviation fuel quality control and operating procedures).

11.1.3 Air services

In 2017, second phase of tank level gauging implementation at Tivat was completed. Fuel level and temperature in two storage tanks can be monitored from PC in Terminal control room, with automated stock reporting.

Purchase of two brand new refuellers is in progress. Estimated delivery of first refueller of 45,000 liters capacity for AS Tivat in Q2 2018, and second one of 35,000 liters for AS Podgorica in Q4 2018. Project will considerably refresh the existing fleet of 6 refuellers and improve reliability and safety of aircrafts supply and company image at air services.

Reconstruction of firefighting system is expected in 2018. This project will improve reliability of FF system, and level of safety will be considerably raised.

11.1.4 Fuel transport

All trucks, both owned by Jugopetrol or by external contractors, are equipped with GPS tracking system. This system enables operators to follow position of the vehicles in real time, thus alleviating communication and increasing safety of the trip.



11.2 Learning and growth

11.2.1 Professional development of employees

Investing in professional development of employees is one of the key points on which the success of the company lays. Jugopetrol invests a lot in the development of its employees. In order to monitor the changes in the market, Jugopetrol AD educates its employees in order to adapt to the current situation and to enable employees to acquire the necessary business skills that will help them build their career.

11.2.2 Continuous education

In order to improve the English language of all employees, the company engages an external professor of English. Teaching is organized twice a week. Employees are divided into two groups according to the language proficiency.

Also, we have continuous education in the field of finance and accounting. Namely, at the moment, we have 3 employees in the company who have obtained the Accounting License, one Internal Auditor's license, and in 2017 we got one ACCA license. The company continues to invest in education in the field of finance and accounting, specifically in the way of financing the exams and the accompanying literature.

Due to the necessity of obtaining the above accounting licenses on an annual basis, it is necessary to follow continuous education, which involves participating in the seminar. Seminars are organized several times a year including the Congress which is organized once a year.

Seminars are organized for the application of all amendments to various Laws, including the preparation of financial reports at the end of the year.

11.2.3 Employee training

Staff training is an investment that contributes to the development of individuals, increasing employees' productivity and overall business success.

The total education costs for 2017 is EUR 19.530. During 2017, 72 employees, out of which 31 women and 41 men, were participants in various trainings, education, seminars and conferences, both organized internally and externally. Also in October 2017, our colleagues, who possess the Certificates of Authorized Accountants (3 employees) were participants of the Congress of Accountants and Auditors of Montenegro.

During 2017, employees attended trainings mainly from safety, finance, marketing and commercial areas.

11.2.4 Internship program

The Internship program is regulated by the Law on Vocational Training for Persons with Higher Education.

Since 2014, Jugopetrol AD has been participating in the Internship program, with the exception of 2015. A large number of interns who continued their work as employees of Jugopetrol AD proving the benefits of this program.

Internship program is designed as a program of acquiring knowledge, skills and competences, for successful completion of various tasks and duties of a person with higher education and without work experience. The aim of Internship program is to help young people, for easier and more successful transition from the world of education to the world of work. This program is being performed without establishing employment relationship. The program itself lasts nine months, from 15th January to 15th October.

In 2017, Jugopetrol AD had 10 such trainees. They were deployed in the following sectors: Secretary of Commerce, Operations and Logistics Department, Internal Audit Department, Legal Affairs Division, Finance and Administration Division, HSSE.

12. RISK MANAGEMENT

12.1 Main risk factors and mitigating measures

The Company is exposed to a variety of macroeconomic (foreign exchange, oil price), financial (market risk, credit risk, liquidity risk), as well as operational risks. In line with international best practices and within the context of the local market and regulatory framework, the Company's overall risk management policies aim at reducing possible exposure to market volatility and / or mitigating its adverse effects on the financial position of the Company to the extent possible.

The Company's overall risk management program focuses on individual risk areas by addressing each class of risk individually. The main risks faced by the Company, as well as the corresponding mitigating measures are described below:

Main risks	Assesment / Mitigating measures
Macroeconomic environment	
Foreign exchange risk	<ul style="list-style-type: none"> - Functional currency of the Company is EUR and sales and purchases are denominated in EUR, management assessed exposure to foreign currency fluctuations as immaterial - Minor number of transactions in other currencies are converted into EUR on the transaction date
Oil price	<ul style="list-style-type: none"> - The Company has exposure to the risk of commodity prices of oil. However, taken into consideration the fact that selling prices are set by the State Decree following market prices of oil, exposure to price risk is not material.
Financial risks	
Market risk: - Cash flow and fair value interest rate risk	<ul style="list-style-type: none"> - The Company's exposure to market risk for changes in interest rates relates primarily to the Company's short-term deposits included within cash and cash equivalents. Given current market interest rates cash flow risk is assessed as not material.
Credit risk	<ul style="list-style-type: none"> - Differentiation of customers' mix - Faster collection of receivables (DSO reduction) - Review of customers' rating status and limits - Increased collateralisation
Liquidity risk	<ul style="list-style-type: none"> - Maintaining sufficient cash - Improving rate of collection of receivables - Adjusting the amount of dividends paid to shareholders - Phase capex - Monitoring capital on the basis of the gearing ratio. In 2017 the Company did not use any borrowings from the banks

Operational risk	
Safety & Environment	<ul style="list-style-type: none"> - Application of safety processes and regular inspection of all facilities - Investments to improve levels of safety and environmental protection
Compliance in terms of operational and product quality	<ul style="list-style-type: none"> - Implementation of necessary measures for full compliance with the existing specifications both on supply chain level and product quality - Investments for adjustment of equipment configuration, in accordance with the local framework
Property and liability risk	<ul style="list-style-type: none"> - Insurance coverage for a number of risks, including damage of physical assets, personal injuries, business interruption, product or other liability

12.2 Overview of Internal Audit System and Risk Management

In the same context, the Company's Internal Audit System and Risk Management include safeguards and monitoring mechanisms at various levels within the organization, as described below:

Risk Identification, Assessment, Measurement and Management

The identification and assessment of risks takes place mainly during the strategic planning and the annual preparation of the business and audit plan. The benefits and opportunities are examined in the context of the company's activities, but also in relation to the several and different stakeholders who may be affected.

Planning and Monitoring/ Budget

Company's performance is monitored through a detailed budget per operating sector and market. The budget shall be adjusted systematically and Management monitors the development of the Company's financial performance through regularly issued reports and budget comparisons with the actual results.

Adequacy of the Internal Control System

The Internal Control System consists of the policies, procedures and tasks which have been designed and implemented by the Management Team and the human resources of the Company for the purpose of the effective management of risks, the achievement of business objectives, the reliability of financial and administrative information and compliance with the laws and regulations.

The Independent Internal Audit Department, by means of periodic assessments, ensures that the identification procedures and risk management applied by Management are sufficient, that the Internal Control System operates effectively and that information provided to the BoD relative to the Internal Control System, is reliable and of good quality.

Roles and responsibilities of the BoD

The role and responsibilities of the BoD are described in the Internal Procedures Manual of the Company, which is approved by the BoD.

Prevention and Suppression of financial fraud

The areas that are considered to be of high risk for financial fraud are monitored through appropriate internal controls and enhanced security measures. In addition to the internal controls applied by each department, all Company activities are subject to audits from the Internal Audit Department, the results of which are presented to the BoD.

Internal Operating Regulation

The Company has compiled relevant internal regulations approved by the BoD. Within the framework of the Regulations, powers and responsibilities are defined which promote the adequate segregation of duties within the Company.

The Company's Code of Conduct

The Company in the context of the fundamental obligation of good corporate governance, it has drafted and adopted the Code of Conduct, approved by the BoD of the company. The Code of Conduct summarizes the principles according to which any person, employee or third party involved in the operation of the Company, as well as collective body, should act within the framework of their duties. For this reason, the Code constitutes a practical guide of the day-today tasks of all employees of the Company, but also of third parties who cooperate with it.

Safeguards in Information Technology Systems

The Group's IT Department is responsible for developing the IT strategy and for staff training to cover any arising needs and the IT department is also responsible for the support of IT systems and applications through the drafting and updating of operation manuals, in cooperation with external consultant where this is necessary. The Company has developed a sufficient framework to monitor and control its IT systems, which is defined by a set of internal controls, policies and procedures.

Safeguards for Financial Statements and Financial Reporting

The Company applies common policies and monitoring procedures of accounting department which include, amongst others, definitions, accounting principles adopted by the Company, guidelines for the preparation of financial statements and consolidation. Furthermore, it also runs automatic checks and validations between different transactional and reporting systems. In cases of nonrecurring transactions special approval is required.

Chart of Authorities

Existence of a chart of authorities, which depicts assigned authorities to various Company executives, in order to complete certain transactions or actions (e.g. payments, receipts, contracts, etc.).

12.3 Legal risks

Before the Constitutional Court of Montenegro there are three court cases in relation to the Constitutional Appeal filed by Jugopetrol AD, with respect to the Installations Bar, Bijelo Polje and Lipci:

- Final judgment of the Basic Court of Bar no. 281/13 of 27th June, 2013 adopted the claim of the State of Montenegro. Jugopetrol submitted an Appeal to the Supreme Court of Montenegro which was rejected under the judgement no. 1081/15 of 16th December 2015. Under the Decision of the Real Estate Administration no. 954-2754/1-016 from 16th August 2016, registration of property rights was changed. By acting in accordance with the judgment of the Basic Court of Bar and in accordance with the Decision of the Real Estate Administration, the Company wrote off from its books the assets valued at EUR 91.424, which was according to the said judgment awarded to the State of Montenegro. These impacted result of 2016.
- Final judgment of the Basic Court Bijelo Polje No. 500/15-05 from 13th April.2016 adopted the claim of the State of Montenegro. Jugopetrol submitted an Appeal to the Supreme Court of Montenegro which was rejected under the judgment Rev. no. 1093/16 of 20th December 2016. By acting in line with the above judgment of the Basic Court of Bijelo Polje, the Company made a provision in the amount of EUR 539.000, which was by the said judgment awarded to the State of Montenegro. By acting in accordance with the Decision of the Real Estate Agency no. 954-105-487/2-2017 from 28th April 2017, the Company wrote off from its books the assets valued at EUR 539.000, for which was made a provision in previous period. These impacted result of 2016.
- Final judgment of the Basic Court of Kotor no. 1033 / 15-05 of 24th May 2016 adopted the claim of the State of Montenegro. Jugopetrol submitted an Appeal to the Supreme Court of Montenegro which was rejected under the judgment Rev. no. 1182/16 of 14th February 2017, which was submitted to the Company on 13th March 2017. In accordance with the IAS 10 and IAS 37, this event is a post balance sheet adjusting event and therefore the Company made a provision in the amount of EUR1.686.368 in the 2016 Financial Statements. These impacted result of 2016. By acting in accordance with the Decision of the Real Estate Agency no. 954-106-UPI-2659/16 from 17th July 2017, the Company wrote off from its books the assets valued at EUR 1,686,368, for which was made a provision in previous period (2016).

Montenegrobonus doo initiated two following two claims against the Company. Management remain confident tha there is no merit to both these cases.

- The first claim, in the amount of EUR 11.024.960 where the Company according to the plaintiff's claim denied use of storage facilities to the plaintiff, contrary to temporary measure of the Commercial Court of Podgorica dated 2004. In 2009, the Municipal Court of Kotor reached a resolution to suspend the proceedings in this legal matter, until the effective resolution of the lawsuit between the Company and the Montenegro Government over the eventual ownership rights on the petrol installations described above.
- The second one in the amount of EUR 7.560.000 claimed lost ability to earn rental income from lease of disputed storage facilities to third parties. As of 2010, this dispute is also suspended until the resolution of ownership rights over the disputed storage facilities.

13. RELATED PARTY TRANSACTIONS

The Company is ultimately controlled by Hellenic Petroleum S.A., a company incorporated in Greece, which owns 54.4% of the Company's share capital through Hellenic Petroleum International S.A., a company incorporated in Austria. Since the acquisition date, Hellenic Petroleum has been the Company's exclusive supplier of oil products. EKO ABEE, a wholly-owned subsidiary of Hellenic Petroleum S.A., supplies the Company with lubricants. Furthermore, two other Group companies, Asprofos and HELPE International Consulting, both of which are wholly owned subsidiaries of Hellenic Petroleum S.A., provide the Company with various technical and consulting services. The company provided consulting services to EKO Serbia, Group company ultimately owned by Hellenic Petroleum S.A., during 2016 and 2017.

The following transactions were carried out with related parties:

a) Purchases of goods and services:

Purchases of goods and services	Relationship	Nature of transaction	2017	2016
Hellenic Petroleum S.A.	Parent company	Purchases of oil products	102.033.141	90.473.841
Hellenic Petroleum S.A.	Parent company	IT services	223.823	203.514
EKO ABEE	Group company	Purchases of lubricants	226.229	206.156
HELPE International Consulting	Group company	Consulting services	270.000	270.000
Asprofos Engineering S.A.	Group company	Maintenance services	-	10.146
Okta Crude Oil Refinery AD	Group company	Consulting and analyzes services	15.061	50.739
Global Petroleum SH.A	Group company	Purchases of goods	-	2.060
EKO Serbia	Group company	Purchases of goods	388	-
Total			102.768.643	91.216.456

b) Sales to related parties:

Sales of goods and services	Relationship	Nature of transaction	2017	2016
EKO Serbia	Group company	Consulting services	47.343	23.583
Total			47.343	23.583

c) Receivables from related parties:

Receivables from related parties	Relationship	Nature of transaction	2017	2016
Hellenic Petroleum S.A.	Parent company	Purchases of oil products	12.310.201	9.343.342
Global Petroleum SH.A	Group company	Purchases of goods	3.110	3.110
EKO Serbia	Group company	Consulting services	3.956	-
Total			12.317.267	9.346.452

d) Payables to related parties:

Payables to related parties	Relationship	Nature of transaction	2017	2016
EKO ABEE	Group company	Purchases of lubricants	80.227	-
Okta Crude Oil Refinery AD	Group company	Consulting and analyzes services	-	548
Asprofos Engineering S.A.	Group company	Maintenance services	-	-
HELPE International Consulting	Group company	Consulting services	67.500	67.500
EKO Serbia	Group company	Purchases of goods	-	-
Total			147.727	68.048

Receivables and payables from transactions with related parties are unsecured and bear no interest. There were no provisions on receivables from related parties.

JUGOPETROL AD
BOARD OF DIRECTORS
Ref. No. 19213
Podgorica, 9th May 2018

According to Article 35, paragraph 3 of the Law on Business Organizations (“The Official Gazette ROM” number 6/02 and “The Official Gazette of Montenegro” number 17/07, 80/08, 40/10, 36/11, and 40/11), on 9th May 2018 the Board of Directors makes the following:

STATEMENT

1. Hereby we state that no damage is caused to JUGOPETROL AD by legal acts and the transactions entered and made during the year 2017 with the parent company Hellenic Petroleum S.A., Greece, and with EKO ABEE, HELPE International Consulting, Asprofos Engineering S.A., Okta Crude Oil Refinery AD, Global Petroleum SH.A, and EKO Serbia as Hellenic Petroleum S.A., Greece related companies, presented in the Company’s 2017 Annual Business Report, page 60 and 61 thereof, and in Note 31 to the Financial Statements for the year ended 31st December 2017 representing an integral part of this Statement.
2. On behalf of the Board of Directors, the Chairman of the Board of Directors is authorized to sign this Statement.

Konstantinos Mademlis
Chairman of the Board of Directors

Rationale

Pursuant to provisions of article 35 of the Law on Business Organizations statement of the Board of Directors about related parties’ transactions is an integral part of annual business report which is submitted by the board of directors to annual general meeting for adoption.

29. Income tax expense (continued)

Deferred tax liabilities	Accelerated tax depreciation	Fair value gains	Total
	(74.875)	16.561	(58.314)
(Charged)/credited to the income statement	(287)	-	(287)
Charged directly to equity		1.000	1.000
At 31 December 2016	(75.162)	17.561	(57.601)
(Charged)/credited to the income statement	(621)	-	(621)
Charged directly to equity		996	996
At 31 December 2017	(75.783)	18.557	(57.226)

30. Earnings per share and dividends per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company (the parent entity) by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Dividends per share are calculated as dividends paid during the year divided by the weighted average number of ordinary shares.

	2017	2016
Profit attributable to equity holders of the Company	7.630.131	5.002.511
Weighted average number of ordinary shares in issue	4.653.971	4.653.971
Basic and diluted earnings per share	1,64	1,08
Dividends paid	5.003.018	6.003.623
Weighted average number of ordinary shares in issue	4.653.971	4.653.971
Dividends per share	1,07	1,29

31. Related party transactions

The Company is ultimately controlled by Hellenic Petroleum S.A., a company incorporated in Greece, which owns 54.4% of the Company's share capital through Hellenic Petroleum International S.A., a company incorporated in Austria. Since the acquisition date, Hellenic Petroleum has been the Company's exclusive supplier of oil products. EKO ABEE, a wholly-owned subsidiary of Hellenic Petroleum S.A., supplies the Company with lubricants. Furthermore, two other Group companies, Asprofos and HELPE International Consulting, both of which are wholly owned subsidiaries of Hellenic Petroleum S.A., provide the Company with various technical and consulting services. The company provided consulting services to EKO Serbia, Group company ultimately owned by Hellenic Petroleum S.A., during 2016 and 2017.

31. Related party transactions (continued)

The following transactions were carried out with related parties:

a) Purchases of goods and services:

Purchases of goods and services	Relationship	Nature of transaction	2017	2016
Hellenic Petroleum S.A.	Parent company	Purchases of oil products	102.033.141	90.473.841
Hellenic Petroleum S.A.	Parent company	IT services	223.823	203.514
EKO ABEE	Group company	Purchases of lubricants	226.230	206.156
HELPE International Consulting	Group company	Consulting services	270.000	270.000
Asprofos Engineering S.A.	Group company	Maintenance services	-	10.146
Okta Crude Oil Refinery AD	Group company	Consulting and analyses services	15.061	50.739
Global Petroleum SH.A	Group company	Purchases of goods	-	2.060
EKO Serbia	Group company	Purchases of goods	388	-
Total			102.768.643	91.216.456

b) Sales to related parties:

Sales of goods and services	Relationship	Nature of transaction	2017	2016
EKO Serbia	Group company	Consulting services	47.343	23.583
Total			47.343	23.583

Purchase of goods and services with related parties are made based on normal commercial terms in force with non-related parties (on arm-length basis).

Receivables from related parties	Relationship	31. December 2017	31. December 2016
Hellenic Petroleum S.A.	Parent company	12.310.201	9.343.342
Global Petroleum SH.A	Group company	3.110	3.110
EKO Serbia	Group company	3.956	-
Total		12.317.267	9.346.452

Note: The stated amount is presented at net value.

c) Payables to related parties:

Payables to related parties	Relationship	31. December 2017	31. December 2016
EKO ABEE	Group company	80.227	-
Okta Crude Oil Refinery AD	Group company	-	548
Asprofos Engineering S.A.	Group company	-	-
HELPE International Consulting	Group company	67.500	67.500
EKO Serbia	Group company	-	-
Total		147.727	68.048

Receivables and payables from transactions with related parties are unsecured and bear no interest. There were no provisions on receivables from related parties.

14. FOCUS ON THE ENVIRONMENT

Jugopetrol AD as the member of the Hellenic Petroleum Group fully applies the proclaimed Group Policy for all kind of protection, safety and accidents prevention. Our company has assured all prerequisites and has adjusted its work processes in order to achieve the overall safety and protection at every level, as well as the environmental protection and quality of life of all citizens.

Jugopetrol AD not only fully complies with the legislation and standards applied in Montenegro, but follows the processes of designing and adjusting the national regulations with the European standards by using international knowledge and experience applied in Hellenic Petroleum Group, by implementing new technologies and by applying the newest technical solutions.

Organizational and functional structure of the company is adjusted to the needs of preventing, monitoring and eliminating possible causes for the occurrence of any kind of accidents in every business segment.

The continuous and permanent training of the employees has been done according to the specified plan that complies with the Legal regulations. We maintain periodical training and adjustments of our procedures so as to mitigate the unlikely event of personal injury and property damage.

Jugopetrol AD, as a socially responsible company, plans and implements all activities by:

- Ensuring that they cause the smallest possible change to the environment, i.e. represent the smallest possible risk for the environment and human health,
- Reducing space occupancy and consumption of raw materials and energy during construction, production, distribution and usage,
- Including the possibility to recycle, prevent or limit the impact on the environment, at the very source of pollution;
- Implementation of all available procedures for assessing the expected impacts and appropriate measures in order to avoid negative consequences for human health and the environment.

Following activities have been done in order to protect the environment and comply with all relevant regulation and procedures:

- Environmental (climate) protection

Use of modern materials on our facilities – insulation made according to standards, bio and oil filters have been installed at Bar installation with the aim to purify wastewater.

- Waste management

Signed contract on waste collection with two companies - Hemosan and Inter Trade, according to legal standards and waste transportation forms. We also deliver all data on waste annually, including the development of a waste management plan every three years, as it is known that our Company produces several different categories of hazardous waste on an annual basis.

- Water management (consumption and pollution reduction)

Atmospheric waters that reach plateaus of our PSs, prior to their discharge into public sewage or natural recipient, pass through a separator according to the new concept of reconstruction project of our PSs. Due to the possibility of spillage of oil and oil derivatives on the plateau, the spilling into a natural recipient is prevented by a special system. Also, the tests carried out on our facilities are in line with the Rulebook on Quality and Sanitary-Technical Conditions for Wastewater Discharge into Public Sewerage or Natural Recipient.

A water permit has been obtained for a period of 10 years. Activities include communication with Water Directorate, as well as field inspection in order to determine that actual design meets water regulations, that oil separators function and are maintained properly, and that there are appropriate procedures for preventing accidental water pollution.

- Energy management (control of gas emission)

We use floating roofs on the tanks in Bar, which reduce emissions of gases. With construction of a new system "Vapour recovery" which will be fully implemented at our PSs and at the installation in Bar, we will reduce emissions of gases. It is a system that during fuel receipt, returns gases to a tank truck by a return hose, instead going into the atmosphere.

- Industrial safety (fire protection)

We use a new fire-fighting system that is more energy efficient, everything is automated and raised to the highest possible level of protection.



15. CORPORATE SOCIAL RESPONSIBILITY

We as a CSR company have been making great strides to expand our connection with our stakeholders both internal and external. From this notion CSR has evolved and grown to a point that it has become recognised in the eyes of the public by its willingness to give back to society and accommodate various stakeholders' needs. Below you can find our largest projects and initiatives for the past year.

Caring for environment

Montenegro had strong fire seasons during the summer of 2017. In this regard Jugopetrol recognised the need to bolster the efforts of the emergency services with fuel donations. Effective communication between Jugopetrol and Directorate of Emergency Situation enabled us to direct resources to the most critical areas.

Contribution to healthcare

Part of our budget is allocated every year for donations to healthcare centers. In previous year we provided donations of ultrasounds machines to hospitals. A total of three machines were donated to health centers in Podgorica, Bar and Kotor. We also traditionally gave Christmas presents to the Hospital for children in Podgorica.



Support of culture and sport (sponsorships)

Our largest project of this kind that was done in 2017 was Jugopetrol EKO Minivolleyball league. This league was attended by 500 children in 41 teams between the age of 9 and 12 from all over Montenegro and is regarded as a big success. The closing ceremony was held in Podgorica, where famous volleyball player Vanja Grbic and Jugopetrol representatives attended the medals delivery.



Young talents and education

In 2017, Jugopetrol joined the other affiliates in the group and created a scholarship programme for the students from Montenegro for the first time. Students got a chance to attend the Universities in Greece for their Master studies. A total of three students were chosen to participate in the Masters programme of the Piraeus University for a period of 3 semesters.



Retail network

BS Andrijevica

Address: Branka Deletića b.b.
Tel: 051 230 760

BS Bar 1

Address: Jovana Tomaševića 61
Tel: 030 302 250

BS Bar 2

Address: Ilino b.b.
Tel: 030 305 004

BS Berane

Address: Miljana Tomčića 20
Tel: 030 305 004

BS Bijelo Polje 1

Address: Slobodana Penezića
Tel: 050 430 268

BS Bijelo Polje 2

Address: Rasovo bb
Tel: 050 438 144

BS Budva 1

Address: Jadranski put b.b.
Tel: 033 401 950

BS Budva 2

Address: Jadranski put b.b.
Tel: 033 403 628

BS Cetinje

Address: Ivan Begova b.b.
Tel: 041 230 060

BS Danilovgrad

Address: Voštar b.b.
Tel: 020 810 005

BS Herceg Novi 1

Address: II Dalmatinske 56, Igalo
Tel: 031 330 080

BS Herceg Novi 2

Address: Meljine b.b.
Tel: 031 348 369

BS Kolašin

Address: Lugovi b.b.
Tel: 020 860 020

BS Kotor

Address: Put prvoborca b.b.
Tel: 032 301 058

BS Mojkovac

Address: Mojkovac
Tel: 050 470 020

BS Nikšić 1

Address: 13 jula b.b.
Tel: 040 200 360

BS Nikšić 2

Address: Hercegovački put b.b.
Tel: 040 200 370

BS Nikšić 3

Address: Podgorički put b.b.
Tel: 040 253 329

BS Očinići

Address: Očinići b.b.
Tel: 041 236 060

BS Petrovac

Address: Buljarica
Tel: 033 401 960

BS Plav

Address: Racina b.b.
Tel: 051 255 015

BS Plužine

Address: Plužine.
Tel: 040 270 008

BS Pljevlja

Address: Narodne revolucije b.b.
Tel: 052 300 020

BS Podgorica 2

Address: 4 jul b.b.
Tel: 020 601 475

BS Podgorica 3

Address: Bul. Vilija Branta 2
Tel: 020 613 850

BS Podgorica 4

Address: Cetinjski put b.b.
Tel: 020 206 040

BS Podgorica 5

Address: 4 jul b.b.
Tel: 020 601 190

BS Podgorica 6

Address: Vojislavljevića b.b.
Tel: 020 663 225

BS Podgorica 8

Address: Bul. Vilija Branta 1
Tel: 020 619 030

BS Podgorica 9

Address: Bul. Ivana Crnojevića
Tel: 020 655 740

BS Podgorica 10

Address: Zabjelo bb
Tel: 020 672 949

BS Radanovići

Address: Donja Sutvara bb
Tel: 032 302 264

BS Ribarevina

Address: Ribarevina b.b.
Tel: 050 480 268

BS Risan

Address: Bujevina 92
Tel: 032 301 136

BS Rožaje

Address: Ibarska b.b.
Tel: 051 270 014

BS Šavnik

Address: Šavnik
Tel: 02040 266 388

BS Tivat

Address: Mažina bb
Tel: 032 670 040

BS Ulcinj

Address: Put Bratice b.b.
Tel: 030 401 152

BS Vilusi

Address: Vilusi
Tel: 040 732 126

BS Žabljak

Address: Vuka Karadžića bb
Tel: 052 360 050

