

# **Q1 2019 results**

## **JUGOPETROL AD**



**Podgorica, April 2019.**

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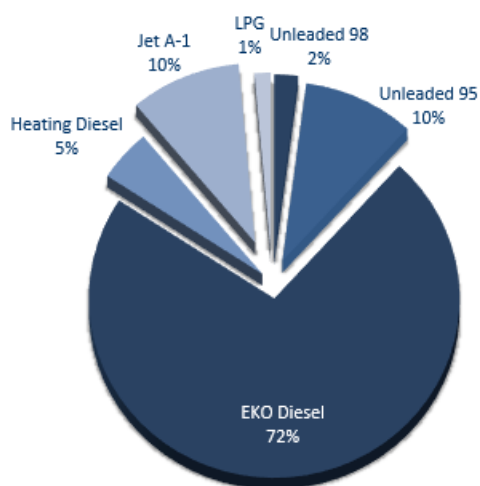


During 2019 Jugopetrol AD continued to realize its strategic vision of being the leading petroleum company in Montenegro.

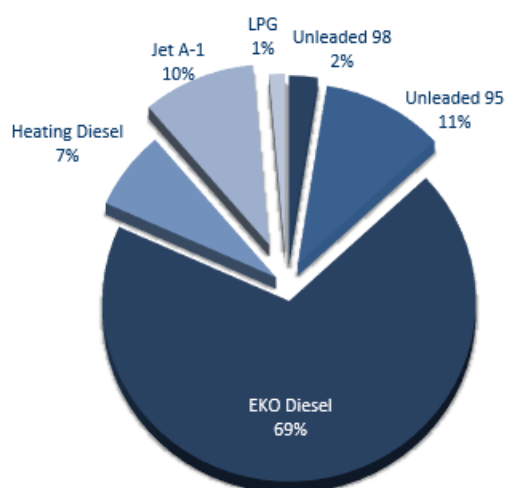
## Sales results

Total fuel sales as of the first quarter of 2019 recorded an increase of 9% compared to the same period of last year. Eko diesel continues to be the leading product with 72% of total fuel sales.

**Sales per product Q1 2019**

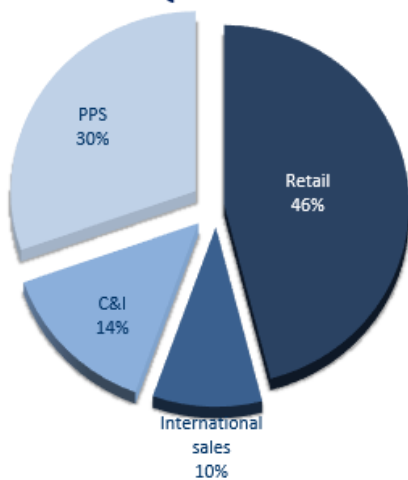


**Sales per product Q1 2018**

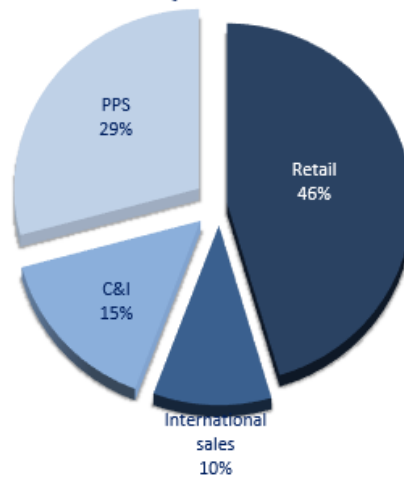


In addition to changes in total sales volumes the distribution per channel of trade slightly changed as following:

**Sales per distribution channel Q1 2019**



**Sales per distribution channel Q1 2018**





Retail Q1 volumes were +10% higher than LY mainly as result of less stations closed for reconstruction than during Q1 of 2018. Excluding the impact of stations which were closed due to reconstruction, the rest of stations also performed better than LY, despite growing competition.

The company is determined to complete the project of reconstruction of its retail network, which will significantly improve the appearance of stations and make the basis for future growth in sales.

International sales (Bunkering & Aviation) continued growth from the last year (+1%), driven by higher number of flights in Montenegro and the decisions of some customers to increase the supply of fuel in Montenegro compared to other destinations. No sales to yachts and other vessels in Q1. Sales in this segment are subject to high seasonality and off-season are erratic and very difficult to predict. Jugopetrol AD continues to be in a position to benefit from the growth of tourism and higher number of flights expected in the future.

Commercial & Industry (C&I) Q1 sales volumes were 2% higher compared to same period of last year. Jugopetrol AD continues to be the first choice for fuel in the C&I segment with consistency and reliability of supply that characterizes the largest fuel company in the Montenegro market. Knowing the customer needs for many years, Jugopetrol AD can ensure excellent quality of products delivered, the speed of loading and technical excellence of the offered solutions.

Private petrol stations (PPS) sales increased +13% compared to Q1 2018, as a result of increased sales to existing customers and signing of contracts with new customers.

## Financial results

Profitability	Q1 2019	Q1 2018	Q1 2017	Q1 2016
Net Profit Margin %	-3,9%	3,0%	4,4%	-3,1%
EBITDA Margin %	-1,5%	5,2%	7,0%	0,2%
Gross Profit Margin %	9,0%	16,5%	19,1%	16,2%

Profitability of the Company in Q1 was heavily affected by unfavorable fluctuation of oil price in international market. Consecutive decrease in sales prices, defined by the Decree on the establishment of maximum retail prices, which started in December 2018 and further continued in January 2019 is the main reason for a steep drop in unit margin in all sales segments. The unit margin slightly recovered during February and March, but still not enough to eliminate the strong negative effects of January.

In relation to expenses, Company's operating expenses in Q1 were lower comparing to LY, driven by actual savings and reclassification of some of the costs to depreciation in line with implementation of IFRS 16.



Cost of depreciation was higher comparing to the same period LY as a result of impact of investment in retail network but also due to above mentioned requirements of new IFRS 16.

Liquidity	Q1 2019	Q1 2018	Q1 2017	Q1 2016
Current ratio	3,12	5,19	4,34	5,74
Quick ratio	2,12	3,28	2,44	3,29
Cash ratio	1,06	1,58	1,16	3,29

Liquidity has been constantly on a high level, with current ratio above 3. High values of liquidity ratios mean that the company has consistently been able to meet its short-term liabilities without any issues.

Jugopetrol AD has an extremely strong financial position emphasized by its low gearing ratio and the fact that it does not have any long-term debt.

### Transition to IFRS 16

The Company transitioned to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted. The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The following categories of leases were identified and entirely relate to cars, real estate, where as a consequence of the change to IFRS 16 as of 1 January 2019, contracts that previously had been recognized as operating leases, now qualify as leases as defined by the new standard.

During the first-time application of IFRS 16, the right to use the leased asset was generally measured at the amount of lease liability, using the average incremental borrowing rate of 3%. The first time application resulted in recording lease liabilities in the amount of EUR 818.602 and accordingly, right-of-use asset in the amount of EUR 818.602 in the Statement of Financial Position as of 1 January 2019. In addition, prepayments for the lease of petrol station in Lapci in amount of EUR 65.982 has been reclassified to right of use asset.

During Q1 2019 there was an increase in lease liabilities, based on new contracts, and on 31 March 2019 these liabilities amount to EUR 1.164.389, and accordingly, the right of use asset amounts to EUR 1.164.389 in the Statement on Financial Position. Additional advance payment for lease of one petrol station in the amount of EUR 250.000 has been reclassified to the right of use asset and the total value of the right of use asset as at 31 March 2019 amounts to EUR 1.462.419.



## **Operational update**

Jugopetrol AD commenced reconstruction or adaptation project of majority of its petrol stations in 2017. Reconstruction or adaptation of 10 petrol stations was completed in 2017. and 2018., and works will continue throughout 2019. Adaptation of two petrol stations is under way.

Jugopetrol AD is the only oil company in Montenegro whose retail network covers entire country. The company is planning moderate extension of retail network in coming years, in order to preserve status of market leader and further improve its array of services. In accordance with that strategy, another new petrol station is expected to start operating in Q2 2019.

At the end of the Q1 2019, Jugopetrol AD had 101 employees, compared to 105 for the same period last year. Jugopetrol AD remains committed to the well-being and development of its employees and continues to invest in their education and training.

As well as in previous years, Jugopetrol AD is participating in the Government sponsored Internship program. A total of 6 trainees have been employed in 2019.

## **CSR update**

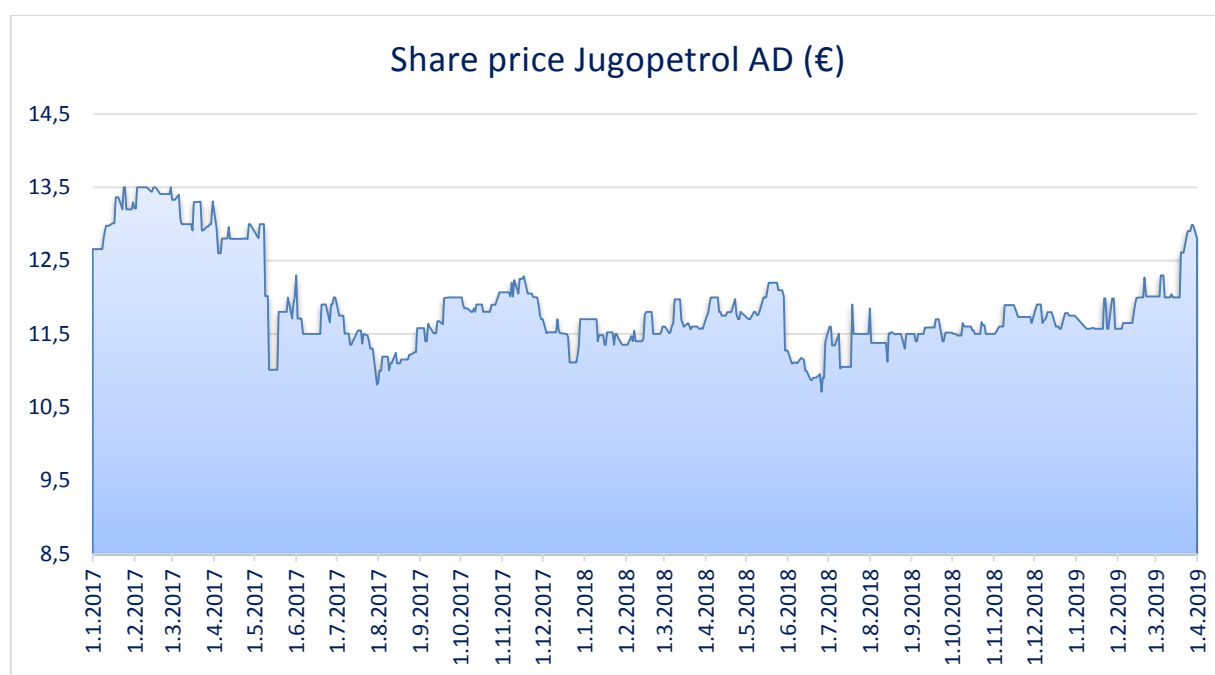
Corporate Social Responsibility is an integral part of Jugopetrol AD culture. Jugopetrol AD continues to invest in recognizing its strategy as a socially responsible company towards its employees, all stakeholders, as well as the general public, with the aim of contributing to the development of the society.

Activities for 2019 are divided into two pillars: road safety and new generations. Road safety pillar will include campaigns that will be dedicated to the education of the public on the importance of safe driving. The new generations segment implies activities and campaigns that contribute to the development of future generations. In this part for 2019 is planned to continue with the traditional scholarships programme for students from Montenegro for master studies at Universities in Greece, as well as the construction of playgrounds in Montenegro.



## Investor update

Jugopetrol's AD stock is one of the most traded stocks in Montenegro. As of Q1 2019 share price fluctuated in the range of 11-13€. The number of shares remained constant.



## RISK MANAGEMENT

### 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
<b>Macroeconomic environment</b>	
Foreign exchange risk	<ul style="list-style-type: none"> <li>- Functional currency of the Company is EUR and sales and purchases are denominated in EUR, management assessed exposure to foreign currency fluctuations as immaterial</li> <li>- Minor number of transactions in other currencies are converted into EUR on the transaction date</li> </ul>
Oil price	<ul style="list-style-type: none"> <li>- 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 and the Company's policy to keep level of its stocks in line with expected sales, exposure to price risk is not material for the local market, although there is no 100% safeguard against the international fuel prices fluctuations.</li> </ul>
<b>Financial risks</b>	
Market risk: - Cash flow and fair value interest rate risk	<ul style="list-style-type: none"> <li>- 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.</li> </ul>
Credit risk	<ul style="list-style-type: none"> <li>- Differentiation of customers' mix</li> <li>- Faster collection of receivables (DSO reduction)</li> <li>- Review of customers' rating status and limits</li> <li>- Increased collateralisation</li> </ul>
Liquidity risk	<ul style="list-style-type: none"> <li>- Maintaining sufficient cash</li> <li>- Improving rate of collection of receivables</li> <li>- Adjusting the amount of dividends paid to shareholders</li> <li>- Phase capex</li> <li>- Monitoring capital on the basis of the gearing ratio. In 2019 the Company did not use any borrowings from the banks</li> </ul>
<b>Operational risk</b>	
Safety & Environment	<ul style="list-style-type: none"> <li>- Application of safety processes and regular inspection of all facilities</li> <li>- Investments to improve levels of safety and environmental protection</li> </ul>

Compliance in terms of operational and product quality	<ul style="list-style-type: none"> <li>- Implementation of necessary measures for full compliance with the existing specifications both on supply chain level and product quality</li> <li>- Investments for adjustment of equipment configuration, in accordance with the local framework</li> </ul>
Property and liability risk	<ul style="list-style-type: none"> <li>- Insurance coverage for a number of risks, including damage of physical assets, personal injuries, business interruption, product or other liability</li> </ul>

### 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 of the Company and Internal Audit Department 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-to-day 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. In this regard, the Internal Audit Department performs additional sampling-based checks in the observed period.

#### 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.).